



General Certificate of Education
Advanced Level Examination
June 2012

Business Studies

BUSS3

Unit 3 Strategies for Success

Thursday 14 June 2012 1.30 pm to 3.15 pm

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)	$\frac{\text{operating profit}}{\text{total equity} + \text{non-current liabilities}^{**}} \times 100$ ** 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	$\frac{\text{non-current liabilities}}{\text{total equity} + \text{non-current liabilities}^{**}} \times 100$ ** 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.

Superstyle plc

Superstyle plc is a manufacturer and retailer of premium quality fashion clothing. Its target market is 15 to 25 year old males. Founded in 2000 by Naheem Iqbal, a fashion design graduate, the business initially started trading from a market stall in Birmingham. It developed into a chain of fashion boutiques, but its big break came in 2009 when internationally known celebrities such as David Beckham and Zac Efron were seen wearing *Superstyle* clothes. This resulted in a dramatic 300% increase in sales between 2010 and 2011.

In order to meet the increased demand, *Superstyle* decided to open more stores throughout the UK and to increase its production capacity. The finance required for this expansion was raised by converting the business from a private limited company (ltd) to a public limited company (plc) in November 2010. The flotation was a great success and Naheem Iqbal, the majority shareholder, became an instant multi-millionaire. As a result of its increased profitability, the share price is currently £16, having risen from its initial £5 valuation. So far, however, *Superstyle plc* has yet to pay a dividend to its shareholders.

The current position

With the new stores, *Superstyle plc* now owns 42 stores in the UK and operates 56 concessions in department stores such as Harrods and House of Fraser.

All of *Superstyle plc*'s products originate from a design team led by Naheem Iqbal. He believes that market analysis is crucial for the effective marketing of the *Superstyle* brand. A significant amount of the marketing budget is spent on both primary and secondary research. The aim is to ensure that the business achieves a high level of popularity and understanding of fashion and consumer trends.

Superstyle plc regularly brings out new product designs. It aims to develop, manufacture and retail a new product design every six weeks. The business makes use of critical path analysis in order to achieve quicker product development times. It manufactures the majority of its products in a factory located in Birmingham, close to the head office. In the factory, lean production techniques are employed. To enable a just-in-time system of production, all of *Superstyle plc*'s suppliers have been located in the UK and have worked with the business for several years. *Superstyle plc* prides itself on achieving high levels of operational performance. The business has several well established kaizen groups and quality is maintained through a Total Quality Management system.

Naheem considers that the employees are a key contributor to the success of the business. When it became a plc, all of the employees were given shares. In addition, the company provides a generous pension. The levels of absenteeism and labour turnover are low.

The factory regularly operates at nearly 100% capacity utilisation. To meet the increased demand, *Superstyle plc* has had to subcontract additional production to a factory in Turkey. Recently, this has led to complaints regarding the quality of products and some shortages in stores due to late deliveries.

In 2011, the Board of Directors appointed Gemma Mabbutt as the Chief Executive of *Superstyle plc* because Naheem had been struggling to cope with managing the rapid growth of the business. Naheem would remain as Chairman and keep control of marketing and new product development.

Turn over ►

The proposed strategy

Gemma had previously been employed as Finance Director for Vodafone, where she had introduced extensive target setting for staff that had gained her a reputation for a ruthless approach to efficiency. At *Superstyle plc*, Gemma has been set the objective of expanding the business both in the UK and internationally. The aim is for *Superstyle plc* to become a global brand. Gemma believes that *Superstyle plc* has to change from being a business that is largely dependent on Naheem's entrepreneurial talents to one that has management expertise throughout the business.

Gemma intends to propose a five year strategy to the Board of Directors containing the following elements:

- open an additional 20 stores per year in the UK
- expand overseas through operating franchises in 36 countries throughout Europe, the Middle East and the USA
- double the number of product lines by adding women's wear.

Her strategy would require *Superstyle plc* to increase its production capacity even more. In addition to the UK and Turkish factories, Gemma intends to subcontract production to factories in India, Brazil and China.

From an HR perspective, Gemma proposes to create additional levels of management. Due to the subcontracting there will be little need for additional production staff, but Gemma wants to recruit extra employees at all levels at head office and in the new stores.

Gemma believes that the company needs to raise £200m to finance her strategy. She proposes to obtain this figure by selling additional shares.

The decision

Gemma believes that her strategy will enable *Superstyle plc* to achieve its aim of becoming a global brand. She now has to convince Naheem and the other directors to accept her proposed strategy.

STATISTICAL APPENDICES

Appendix A: Superstyle plc – Financial Information

Summarised Financial Accounts for year ending 31 May 2012

Balance Sheet	2012 £000
Non-current assets (fixed assets)	74 094
Current assets	66 862
Current liabilities	(23 983)
Net current assets	42 879
Non-current liabilities (long-term liabilities)	(33 000)
Net assets	83 973
Total equity (shareholders' funds)	83 973

Income Statement	2012 £000
Revenue (Turnover)	200 000
Cost of sales	106 103
Gross profit	93 897
Operating profit	40 456

Selected ratios for year ending 31 May 2011

ROCE	30%
Gearing	32%
Asset turnover	4.83
Current ratio	1.8 : 1

Turn over for Appendices B, C and D and Questions

Turn over ►

Appendix B: Marketing data – current and forecast (if strategy approved)

	2012	Forecast
Revenue spent on marketing	20%	10%
Number of product lines	1000	2000
Number of countries with <i>Superstyle</i> outlets	1	36
Estimated average price elasticity of demand for <i>Superstyle</i> clothes	-0.5	-1.2
Index of average price of <i>Superstyle</i> clothes	100	80

Appendix C: Operations data 2012

	Superstyle plc	Industry average
Index of real unit cost	80	100
Revenue spent on research and development	10%	5%
Number of kaizen groups per factory	30	20
Products made in the UK	90%	10%
Average delivery time from factory to retail outlets	3 days	7 days
Faulty products	3%	7%

Appendix D: Human resource data – current and proposed (if strategy approved)

	2012	Proposed
Number of employees	1000	1500
Levels of hierarchy	4	8
Bonus payments for meeting targets as % of average pay	0	20
% of production staff on temporary contracts	10%	30%
Average span of control	12	8
Shares owned by employees	5%	3%

Question 1

0 | 1 Using the data in **Appendix A** and the case study, analyse the profitability and asset turnover of *Superstyle plc* between 2011 and 2012. (10 marks)

Question 2

0 | 2 Was the high level of popularity of the *Superstyle* brand due to the effectiveness of its market analysis or other factors? Justify your answer. (18 marks)

Question 3

0 | 3 Do you think that it was the employees or the use of lean production that contributed most to the success of *Superstyle plc*? Justify your view. (18 marks)

Question 4

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

- analyse the case **for** Gemma's proposed strategy
- analyse the case **against** Gemma's proposed strategy
- make a justified recommendation on whether Gemma's proposed strategy should be adopted.

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

(34 marks)

END OF QUESTIONS

There are no questions printed on this page