



# Business

**AS AND A LEVEL**

**Business Studies F292**

**H030/H430**

Six Candidate Responses  
from June 2014

Examination Series with  
Examiner's Commentary

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# CANDIDATE ONE

This candidate achieved a high grade A by providing Level 4 responses in all four long answer questions.

## Question 2b

**Discuss the benefits to AAB of using marketing techniques, such as the Boston Matrix and the product life cycle, to make decisions about its product portfolio**

### Answer

Every 3 months, AAB makes a review of quarter of its products by using theories such as product life cycle and Boston Matrix. AAB then uses them to make decisions about their product portfolio, however the benefits of such techniques are arguable.

Product life cycle looks at the volume of sales over a period of time. This model can be used to predict future behaviour of products and hence make decisions about its marketing mix according to the stage in which the product is. For example, when we know Basic Foam Mattress is in saturation, AAB can decide to use sales promotion to make the most of this product's end of life cycle, or they can decide to use extension strategies like new design or new features to prolong the life cycle. However, it can be tricky to decide in which stage a product is. For example, Deluxe Foam Mattress can be considered as stationery mature, but maybe its sales will continue to grow if supported by certain marketing strategies like persuasive advertising in promotional mix. Product life cycle can therefore be useful when we know the future (which we don't), so guesswork is needed and everything depends on the accuracy of those guesses.

Boston Matrix can also aid marketing strategies or decisions about when is it right to launch a new product. It helps us to see whether product portfolio is balanced which it doesn't seem to be in case of AAB's mattress range which lacks "cash cows". However, Boston Matrix is based on market share and market growth, but just identifying the market can be difficult, let alone sales. Therefore it has to be based on guesses which may not be accurate.

All in all, those techniques can be useful when we know all the data, but when based on guesses, there is opportunity cost that the time used could have been spent on e.g. returning AAB's profitability.

### Commentary

The first paragraph simply repeats information from the pre-release case study so gains no credit. In the second paragraph, the candidate correctly explains how the product life cycle help a business to apply the marking mix (Level 2). They then develop this idea by using Table 1, which identifies that the basic foam mattress is in the saturation stage. They suggest that AAB would therefore need to implement more promotion or an extension activity. This is contextual analysis as there is a clear impact on how AAB will react to the information (Level 3). Towards the end of the second page, the candidate then evaluates (Level 4) how useful this information is by considering the fact that a product, like the deluxe foam mattress, may be at the mature stage, but that sales could still rise if successfully marketed and that the product life cycle can be undermined by any guesswork involved in the technique.

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The candidate then follows this line of reasoning in relation to the Boston matrix. They explain that it is useful to know if your product portfolio is balanced (Level 2). They then suggest that AAB lacks cash cows. At this point the answer could be strengthened by naming the deluxe foam mattress as the only cash cow (Level 2) and by saying that cash cows support other products (Level 3). The following discussion about the difficulties of defining the market and measuring sales is evaluative, but the context is weak. This section was awarded Level 4 Benefit of Doubt (L4BOD). The candidate could have made clear use of the case study (such as lines 39-43). The final paragraph repeats some of the earlier evaluation. This answer was awarded **14/16 marks**.

### Question 3

**Discuss ways in which AAB could further improve its waste management and efficiency in all aspects of the business.**

#### Answer

At the moment, there is a number of waste management and efficiency improvements which are taking place, but further actions can be taken to improve all aspects of the business.

In AAB's newly opened depot near Gatwick, the turnaround time was decreased from 4 weeks to 6 days, but further steps can be taken to make even closer to just-in-time stock control when minimum of stock is held and turnaround time is reduced to being just in time when stock is needed. To achieve that AAB would need to develop a very good relationship with their suppliers. However, because there is about 100 suppliers across Far East, there is physical distance and language barrier limiting this effort. Moreover, it may be too risky to reduce levels of stock after AAB had distribution problems when some stores ran out of stock of key items. Nevertheless, the reward would be lower costs of holding stock, better acid test ratio and less waste as products wouldn't have enough time to considerably depreciate, so it all depends on AAB's willingness to take risks and ability to have a better relationship with suppliers.

In AAB's early years as retailer, AAB chose a very slow rate of expansion so they could learn from mistakes they made along the way. This can be considered as a form of kaizen (continuous improvement) which can even now be used in AAB's retail stores to for example prevent any more adverse publicity by helping each other with stock control. More integration of stores would create a better teamworking and hence it might have a positive impact on motivation as according to motivational theorist Mayo. However, improvements in efficiency and waste management depend on to what extent can kaizen be implemented.

In the design and marketing department, benchmarking can be used to compare AAB's position and products with their competitors and use the gained knowledge not only to improve product design and marketing strategies, but also to improve efficiency and waste management. But success only depends on the usefulness of the information gained.

To conclude, there is a number of techniques AAB could adopt to minimise inputs and waste levels, but its usefulness depends in whether AAB has the resources in terms of time and money to implement it and let it settle so efficiency and lean production can be achieved.

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## Commentary

The initial paragraph does not answer the question. The second paragraph introduces a relevant waste management term 'just-in-time' (Level 1) and correctly describes how it works (Level 2). The impact of JIT for AAB is then considered, by describing how it would be difficult to implement because they need strong relationships with suppliers but have over 100 of them over a large part of the globe (Level 3). Further contextual analysis comes from considering the impact of reducing stock and their current inability to meet customer demand (Level 3).

From the bottom of the first page ('Nevertheless...'), the response then begins to weigh up the use of JIT. Despite incorrectly considering the impact of less stock on the acid test ratio rather than the current ratio, the candidate does consider that the use of JIT is dependent on their risk taking and relationships with suppliers. This was rewarded as L4BOD but could have been more clearly L4 if it had stronger context e.g. AAB has been importing for over 30 years so is likely to have some well established supplier relationships.

The third paragraph mentions Kaizen and teamworking, but fails to explain either term or successfully apply them to improving waste and efficiency at AAB (Level 1 only). The fourth paragraph more successfully explains benchmarking but lacks context so can only be rewarded Level 2. The final paragraph is also too generic. This response was awarded Level 4 BOD, **12/16 marks**.

## Question 4

**Evaluate the extent to which AAB's current organisational structure may affect the future success of the business**

## Answer

AAB's current organisational structure is very complicated and it may constrain AAB's future plans of growth, expansion and improving efficiency.

Next year, AAB plans to open one store a month and increase the percentage of sales coming from Abroad. With more stores being open and more store managers being employed, there is more and more workload for Nick Foster, the Retail Stores (UK) Director. With so much to look after all over UK, there is danger his motivation would be affected negatively and AAB would suffer from diseconomies of scale. Certainly at this time when they made a loss it would be undesirable if the situation when some stores ran out of stock repeated. That would have a very negative impact on AAB's brand image which is mainly known for quality, but fails to deliver it. Moreover, although AAB's online store is one of the priorities, the website team is the lowest level of AAB's structure, which might as well be a hygiene factor for some employees. Therefore current structure may not only demotivate AAB's staff, but also make their brand image suffer, but everything depends upon the sensitivity of AAB's employees to growing workload.

AAB aims for greater efficiency and it even contracted a management consultant to advise them on their structure. Certain parts can seem more than a bit inefficient. For example, AAB has 2 marketing teams for the UK and abroad though 1 would be enough and therefore their marketing strategies may be conflicting each other and lacking consistency in policies. Overseas marketing staff also has more than 1 authority to obey which may as well show on their motivation and AAB's efficiency. AAB has inefficient chains of command in other parts as well. For example

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members of AAB Ltd. (parent company) are on the same level there, but on different levels in Product and Retail, which can also contribute to diseconomies of scale and inefficiency.

Altogether, if AAB doesn't change their structure, it may have negative impact on their future, but it depends on how much will inefficiency and demotivation show on customer service and hence sales.

### Commentary

The candidate begins by identifying a specific issue with AAB's organisational structure; that Nick Fosten's heavy workload will be increasing as more stores are opened. This could have been more clearly linked to the question by actually saying that he has 'an increasingly wide span of control', which may reduce his ability to deal with the stock out problems, so damages AAB's brand image (Level 3).

On the second page, an issue is raised more successfully. Strong context is developed by looking at the future success of AAB's online store, given their organisational structure. Herzberg's hygiene factor of job status is linked to the website team's low position in the structure (Level 2) and the effect of this is described as being demotivating and affecting brand image (Level 3). The paragraph ends by pointing out that the extent to which this affects AAB depends on the sensitivity of staff under growing pressure. This is evaluative context (Level 4).

The next paragraph relates to a third issue of the motivational benefits of merging the UK and International marketing teams and having one clear chain of command (Level 3).

### Question 5

**Javier is hoping that the full details of the accounts will set the minds at rest of some the firm's key stakeholders. (Lines 138–139)**

**Evaluate the extent to which different stakeholders will benefit from the information provided in AAB's final accounts.**

### Answer

Between years 2012 and 2013, AAB's profit fell by alarming 126%. The fact that AAB made a loss has been known for a while, but the release of final accounts could calm down AAB's stakeholders.

Javier and Elizabeth Mogán are the founders and owners of AAB Ltd. As the only shareholders, they cannot expect to be paid anything on dividends when there is no profit. However, they may not be worried in the long term. As chief executive and deputy chief executive, Javier and Elizabeth are likely to know that this loss was made despite rising turnover because of AAB's significant investments into expansion both in the UK, abroad, and online, and also because of significant investments into waste management, efficiency and opening a new depot near Gatwick. All these projects need time to settle and become profitable in the future which is what Javier's and Elizabeth's attitude depends on.

AAB has over 100 suppliers in the Far East who may be concerned about AAB's position. Because only 9.26% of AAB's working capital is cash, AAB is likely to purchase everything with credit creating liabilities. Without profit, suppliers can

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be concerned about being repayed, because everything depends on selling stock which may be uncertain as demand fluctuates all the time. However, because the turnover rose by 7%, it proves that there is demand for AAB which may calm down suppliers, but everything depends on the stability of demand for AAB's goods.

Finally, managers may not be interested in the long term as much. If they are paid by profit sharing, they would certainly be concerned, but if the 13.8% rise in expenses was spent on their salaries, they may have nothing to worry about. And certainly for family members, their motivation may not be just money.

To conclude, details in final accounts can benefit certain stakeholders, but unless we know exactly where did the expenses go, everything depends on the time needed to return profit.

## Commentary

To build a good response to this question a candidate will need to show to what extent final accounts impact on specific stakeholders (not AAB). This script does this in relation to three stakeholder groups. Firstly it makes it clear that AAB's shareholders will learn that they will not be paid dividends this year as there is no profit. But, that as the shareholders are also AAB's Chief Executives, they will know that the loss was due to investments which are not yet showing returns. In other words, the information in the accounts only provides some relevant information about AAB to this group. This issue has therefore been fully developed to achieve Level 4.

On the second page the stakeholder group is suppliers. They are concerned about the low proportion of cash in the accounts so may be worried that there is not enough to pay them (Level 3). However, they may be also affected by stability of demand for AAB's goods, which the final accounts will not show (Level 4).

The last page applies to managers who may be concerned about their salaries decreasing due to the significant rise in expenses (Level 3), but as many of them are family they may be less motivated by money anyway (Level 4). This answer was awarded the **maximum of 20 marks**.

## CANDIDATE TWO

This candidate achieved a low grade A by providing two Level 4 responses, one Level 3 and a Level 2 response in the four long answer questions. They also received over 75% of the marks for the short answer questions.

### Question 2b

#### Answer

The company has a very large product portfolio, there are many advantages to this for example having mattresses for low socio-economic classes and high socio-economic classes 'has given it a competitive advantage on the high street, emerging from the latest recession in a much stronger position than most of its competitors.'

However Elizabeth believes 'some decisions need to be made' about some of the products 'long-term future'. The Boston Matrix uses market share and sales volume to classify products. Stars are products which high and rising market share and high sales volumes.

In AAB's case this is the Pocket Sprung mattress, these need advertising and promotion but can usually bring in quite large amounts of profit, increasing margins which will help AAB's aim of 'returning to profitability in the next 12 months'. Dogs are products which have low and falling market share and very little sales growth (in AAB's case negative sales volume growth). This is the ultimate mattress for AAB and decisions need to be made as to whether its worth investing in or should be ditched. Both stars and dogs drain financial resources which AAB can't afford due to their losses and debt last year. Therefore they need a 'cash cow' which has reasonably high volume of growth and market share to provide finance for the stars and dogs. For AAB this is their deluxe foam mattress, this requires little promotion and can guarantee a steady income of sales.

Lastly the Boston Matrix has a problem child, for AAB this is the 'supreme mattress' these are relatively new products with low market share but high volume of growth. Javier and Elizabeth would have to review the product, the market and finances to decide if its worth supporting this product past this stage. The Boston Matrix could be used to refine AAB's product portfolio, which could reduce waste (another objective of the company) however due to the ever changing market, especially coming out of recession it would need to be constantly reviewed to be effective.

The stage of product life cycle could help Elizabeth see which products need to be supported and promoted in the product portfolio, for example the supreme mattress is at the introduction stage therefore may need promoting either through advertising or possibly instore discounts to gain market share. This could then in the future possibly turn to a cash cow and be worth the financial backing. However products such as the ultimate mattress are in decline and this shows they may need to be taken off the portfolio if they are costing more to the business than adding value this in return would reduce waste aiding to return AAB to profitability in the next 12 months. As with the Boston Matrix in an everchanging market this must be constantly reviewed to really help AAB

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## Commentary

The response begins to answer the question at the bottom of the first page where there is knowledge of portfolio concepts i.e. the Boston matrix contains 'stars' (Level 1). The candidate correctly identifies the pocket sprung mattress as being a star (Level 2) and gives the impact on AAB in terms of needing to spend on advertising (Level 3). The analysis could have been strengthened by understanding that a star is in a very competitive market so will require promotion and price monitoring. The line of reasoning is repeated for the 'Ultimate' mattress being a dog, so could be dropped to stop losses occurring, for the deluxe foam as a cash cow generating a steady income with little promotion and for the 'Supreme' mattress being a problem child so needing reviewing (Level 3). The response then evaluates the Boston matrix by saying that it is of limited use in a rapidly changing post-recession market as more reviews would be necessary (Level 4).

The rest of the answer correctly analyses the AAB's use of the product life cycle for specific mattresses (Level 3) but finishes with a repeat of the evaluation from the Boston matrix section. Therefore this part of the answer does not add any additional marks to the response. The answer was awarded **13/16 marks**, which could have been greater if the product life cycle was specifically evaluated. For example, the candidate could have mentioned that as AAB do not just stock mattresses, but hundreds of other products, plotting each product's life cycle regularly would be very time consuming and almost impractical.

## Question 3

### Answer

Efficiency is the amount of outputs and inputs. A more efficient business aims to have these even. Waste can be defined as anything that costs more than it adds value to the business.

The new Gatwick depot seems to have caused various problems within the business leading to 'adverse national publicity during 2013 as some stores regularly ran out of stock' and many 'store managers complaining' about receiving the wrong stock. Gatwick seems a strange place for the depot as most of the products we are told are shipped however it does have good rail and train links perhaps reducing transport costs. Consequently I think AAB need to improve their lead time from depot to stores and customers. Lean production isn't justifiable or feasible with so many different stores and suppliers and distribution partners spread overseas, this would be too risky as a demand for a product may have trouble shipping, therefore not get to the customer, furthering customer dissatisfaction, it would also be more expensive for AAB to ship smaller items from suppliers and they wouldn't benefit from economies of scale. Seeing as shipping costs were partly to blame for their loss of profit last year, these need to be reduced as much as possible. However AAB could consider using just in time (JIT) from depot to stores and customers. For retail stores this would reduce the amount of space they need at the store, therefore smaller stores could be rented, reducing rent and consequently overheads which would help to minimise waste and return to profitability. AAB would have to increase their buffer stock slightly But this method would hopefully keep stock down as this is a problem for cashflow at the moment. The new systems installed will help with this as they have already 'reduced turnaround time from 4 weeks to 6 days.' The systems have also been able to 'reduce the number of cargo firms from 12 to 6' this will reduce the price of

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shipping due to economies of demand for placing more goods with one firm and reduce handling costs, consequently reducing waste and maximising efficiency.

It is not made clear in the case study whether AAB uses Computer aided design (CAD) but this would greatly increase efficiency, especially for the clothes with the fashion element it reduces the amount of time for a product to go from development to being on the shelves this should increase the fashion of the clothes (because more current) therefore increasing sales and reducing waste. It may lead to losses to start with due to training and getting it set up but in the future would increase competitiveness and therefore market share and growth achieving AAB's aims of increased efficiency and growth reduced waste and return to profitability.

## Commentary

The first page of this response remains at Level 1. This is because it is not directly answering the question. It describes the causes of waste and inefficiency, what already happens at AAB and doesn't show evidence of understanding how possible solutions work for a wholesaler/retailer such as AAB.

The discussion of just-in-time is more successful, recognising that it involves holding less stock so smaller stores could be used, reducing rent and helping to improve their poor profitability (Level 3). However, JIT does not require a larger buffer stock. At this point the answer could have been strengthened by good contextual evaluation of the JIT. For example, the use of JIT could have increased the possibility of stock outs.

The answer then reverts to describing what AAB already do from the pre-release material (Level 1). The discussion on computer aided design (CAD) is focussed on the impact of faster product development in the clothes section AAB's product range so giving them increased sales and reducing waste (Level 3). The following sentence could have been more contextually applied to AAB in order to secure Level 4. For example, the issue of increasing expenses could put AAB off as theirs are already 14% higher than 2012. This response was awarded **9/16 marks**.

## Question 4

### Answer

AAB current organisational structure is described as 'quite complicated.' Due to AAB changing from just a supplier to a retailer as well this has meant the organisational structure doesn't fit for purpose anymore because they have changed it, they just added in a retail company. The 'strain' is also due to the 'continued expansion' placed on the business. Due to their being 3 separate companies this makes communication very difficult, which may jeopardise the 'adaptability' the Javier loves about AAB in the future.

AAB is a private family run business and in the future if the organisational structure needs to be changed this could lead to redundancies which may cause resentment amongst employees if they feel family members are being favoured, this could reduce motivation therefore efficiency and consequently AAB might struggle to find employees for the new stores they plan on opening next year. There is a too wide span of control for some people for example Gemma (managing director for retail) has 6 people responding to her but the finance director doesn't have anyone reporting to him. Also many roles don't make sense for example Val Hainey as international distribution director should have a closer connection to depot staff because all products are transported to the Gatwick depot before they're distributed elsewhere. There are other examples of this suggesting people may be under or over employed, consequently proper job descriptions need to be drawn up and the structure reorganised to improve efficiency and communication – this is very important in an ever adapting industry such as fashion. AAB has recently employed someone to review the organisational structure but firstly the objectives and aims of the business must be fully established, without these the structure cannot fully carry out its role.

### Commentary

The first part of the answer does not show a good appreciation of why a large organisation operates in three sections. It also begins a discussion on the legal status of AAB rather than answering the question.

The response really begins half way down the first page when the issue of family members in the organisation is discussed in terms of it affecting staff motivation (Level 2). This could have been more clearly developed by pointing out that the family are all in positions of authority and that other non-family staff may feel they have less chance of promotion, demotivating them and leading to falling productivity for AAB. This could have been evaluated by pointing out that, AAB has been a family run business for over 30 years and has sales of over £140 million so it can't affect them significantly (possible Level 4).

Then a number of other issues are raised and not well developed. Gemma Joyce's wide span of control is mentioned, but could have included the fact that as she is director of the retail company, she needs to be in full control of her 6 managers with the rapidly increasing number of retail stores. There is an attempt to show understanding of how Val Hainey's lack of contact with depot staff could be a problem, but she does not need to be directly responsible for them as they have their own distribution manager.

The rest of the response does not directly answer the question. **4/16 marks** were awarded.

## Question 5

### Answer

The employees will feel more secure in their jobs if they see the gross profit has remained relatively similar to last year, with a loss of only £95,000 also that there is £788,000 more cash assets currently than this time last year. The net current assets have also improved significantly. Therefore the business is less likely to make redundancies therefore hopefully boosting morale and motivation amongst employees.

Customers may be reassured that turnover has increased by almost 10,000 as this means that they still have higher level of sales therefore may be ordering more stock which will increase purchasing economies of scale which may encourage reduces prices in the shops. This will also be reassuring to suppliers because it means they are still likely to receive business from AAB, therefore they are more likely to stay in business and can receive their own purchasing economies when buying the raw materials needed consequently this could again reduce the charges from the supplier which will increase profit and if discounts are made please the customer.

This will also please the cargo companies because it means more orders will be placed with them supporting their business. However there are considerably more creditors due after and within 12 months which may cause companies to be resisant to work with AAB as this reduces their cashflow and may cause them problems.

Customers may also be worried to see that there is a lot more stock being held than last year because this means designs may be out of fashion and not up to date which reduces their worth and customers are less likely to spend large amounts of money which reduces profit and increases waste. They may also be skeptical about brand loyalty if they see the profit before tax because it shows the company is less in favour and therefore if they don't fully understand the Account sheets may think this is due to quality, price and trend causing a loss in sales however few customers (from the shops to retailer) are likely to view these sheets therefore its wouldn't affect the company too badly.

### Commentary

It is interesting to note that this response achieves **Level 4** even though it is less than two pages long. Better quality answers are not necessary long answers. This response recognises that employees could be interested in gross profit (profit after wages are deducted) and as this has only slightly fallen, they will not be too concerned about their jobs (Level 3). Good analysis also comes from the impact of specific items in the accounts on customers' confidence and the impact of increasing creditors on cargo firms' potential cash flow (Level 3).

There is an attempt at evaluation in the final sentence which shows the extent to which final accounts are useful to consumers as they are unlikely to look for this sort of information. The context was weak at this point so Level 4 BOD was given. The evaluation of the usefulness of accounts for consumers could have been more contextualised by considering that more expensive items may have long guarantees so some buyers may wish to check that they would still be honoured in a few year's time, especially as some of AAB's major competitors are in a weak position.

## CANDIDATE THREE

This candidate achieved a grade B by achieving good marks for the short answer questions, in addition to one Level 2 response, two low Level 3 responses and a Level 4 response in the long answer questions.

### Question 2b

#### Answer

Firstly, a benefit of using marketing techniques such as the Boston Matrix include the system being simple. This means they would be able to identify dog's such as 'the ultimate mattress'. This would mean that they could therefore decide whether to withdraw the product or extend it. The advantage of this is that it is simple but means that all products will have to be identified which can be time consuming.

Also the Boston Matrix will allow AAB to identify what will likely bring in a lot of revenue. A product like the 'pocket sprung mattress' could be identified and then this means that AAB could market it in order to try and get as much revenue from it as possible. Therefore this is good because it means that their best products can be focused on to make them into cash cows.

Also, product life cycle could be considered. This would mean they could identify the decline of products such as the 'basic foam mattress' which means that they could try to create an extension of its life cycle. The advantage of this is that product's life cycles can be extended but it may be costly to do so.

In contrast, the product life cycle would help to identify when products should be withdrawn. Products such as 'the ultimate mattress' may be close to not making a profit. By identifying this, AAB will be able to withdraw products from their portfolio as soon as they become unprofitable.

Also, product life cycles can help to identify products that are losing demand quickly. Products such as 'the ultimate mattress' can be identified and this allows the firm to be able to introduce new products such as the 'HealthySleep' in order to cover the profit that the other product used to make. This is good because it allows a firm to maintain a steady level of profit by maintaining a constant number of products.

Finally the Boston Matrix will allow AAB to make decisions about products because if they can identify a problem child such as 'the supreme mattress' they will be able to focus resources on it in order to turn it into a cash cow. Although this can be costly and time consuming, the reward is usually a lot greater and therefore AAB should use this method in order to boost revenue from 'the ultimate mattress' which will also improve the product portfolio.

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## Commentary

This answer was not well planned and only achieved Level 3 BOD, **7/16 marks**. It could have achieved more solid Level 3 by using Table 1 and showing how the product portfolio techniques affect AAB's marketing decisions.

On the first page, the candidate sets out to prove the point that the Boston matrix is simple. This is not achieved as it doesn't say how products fit into different categories. Fortunately, they use Table 1 to identify the 'Ultimate' mattress as a dog (Level 2) which could be withdrawn or extended (Level 3 BOD). The use of extended products falls more easily into the product life cycle.

The next paragraph doesn't appear to be using the Boston matrix clearly as it only mentions high revenue products. Nor does it identify the pocket sprung mattress as a 'star' product.

The paragraph considering the product life cycle incorrectly quotes Table 1 as the basic foam mattress is in saturation not decline, therefore can only gain Level 2 for identifying the use of extension strategies. However the discussion on the 'Ultimate' mattress being withdrawn because it is the decline stage and unprofitable is correct (Level 3 BOD). This issue is partly repeated in the next paragraph and linked to introducing new products to maintain a stream of profits.

The final paragraph returns to the Boston matrix and correctly identifies the 'Supreme' mattress as a problem child (Level 2), but does not clearly say how focusing resources will help it to become a cash cow. It also returns to apply the same weak explanation to the 'Ultimate' mattress.

This response lacks any evaluation of the two techniques even though the pre-release case study identifies weaknesses with the data used.

## Question 3

### Answer

Firstly, AAB could improve its waste management by creating products from only a few suppliers. They currently have 'close to 100 different suppliers' which means that they will be wasting unnecessary money on suppliers when they could be gaining economies of scales. The advantage of improving this is the money that AAB will save from developing economies of scale but will time consuming to change suppliers.

Also, by having 'close to 100 different suppliers' they are having to increase the number of 'distribution centres' they use. This means that time will be wasted because these distribution channels will take longer to deliver products than if they only used a few. The disadvantage is therefore the time that they are losing out on which can be prevented by reducing the number of distribution channels.

On the other hand, It can improve efficiency by reducing the number of cargo firms it uses. They currently use 'six' 'cargo firms' but if they could reduce this number further, they will save time therefore, I believe that they should try to reduce the number of cargo firms they use to one or perhaps move production to areas near their Stores. However, that would be costly and use up a large amount of time.

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In comparison, it has 'three interlinked companies', which can also waste time due to the length of the chains of communication. By merging these companies they may be able to increase the speed of communication. However, the increase in span of control may lead to demotivated staff and confusion which may potentially cause a decrease in efficiency.

However, the firm can improve its efficiency by moving production to the UK. Most of stores are in the UK and they have just opened their '61st' UK store. By moving production to the UK they will not only save time by cut out the cost of 'cargo firms' due to their production being in the 'Far East'. This would also allow AAB to benefit from economies of scale and therefore I recommend moving production to the UK.

Finally, AAB could simplify its organisational structure to improve efficiency. Communication between the 'three interlinked companies' can be 'quite complicated' and time consuming. By simplifying it, the staff will be able to communicate more efficiently. This would save AAB a lot of time and they should definitely simplify the organisational structure in order to improve the efficiency and reduce time wastage.

## Commentary

The response lacks structure, making five weak suggestions for improving AAB's waste and efficiency. It would better to explain fewer solutions to a higher level of analysis.

The first point about reducing suppliers doesn't clearly say how this reduces waste, just that having many suppliers is 'wasting unnecessary money on supplies'. This is generally confusing, especially the point about reducing suppliers being 'time consuming to change suppliers'. They then use lines 101-102 of the case study to suggest that AAB should reduce the number of distribution centres without a clear explanation how this will reduce waste.

The third solution is a repeat of one that AAB has already used; reducing the number of cargo firms. Again the response doesn't justify how time will be saved. A fourth solution is added to the discussion; moving production nearer to UK stores, but again is not explained.

The answer then diverts into a fifth point about organisational structure. By this point only **low Level 2** has been achieved. It then returns to the fourth issue of moving production to the UK to be near the 61 UK stores (Level 2) leading to a reduction in travel time and expenses for AAB, so achieves **Level 3**. The final paragraph repeats the fifth point.

## Question 4

### Answer

Firstly, AAB's organisation structure may be good for future success of the company. This is because the firm is made up of 'three interlinked companies'. This means that the employees in one company will be able to communicate with others quicker which is good as it may lead to improved efficiency.

However, this system 'is quite complicated' which means that some staff may feel confused about how the chain of communication works. This could lead to a loss of motivation as well as being time consuming. This would mean that efficiency may decrease due to confusion and AAB should create a simpler system in order to prevent this.

On the other hand, the system means that staff can be put with people that are appropriate to their job. This means that staff in 'All About The Baby (Product)' will not only be able to communicate with staff that they need to quicker, but will not have to deal with unnecessary chains of communication. This means that it may be best for AAB to encourage this structure as the time that can be saved may contribute to future success of the business.

In comparison, having a 'complicated' organisation structure may prevent AAB from being successful. This is because people in one firm such as 'the designers' may feel isolated from the other sectors of the firms. This would potentially cause a lack of motivation and therefore AAB should perhaps encourage communication between firms where important in order to improve staff motivation and efficiency.

The firm uses a flat organisation structure. This means that there are short chains of communication but also means that it takes less time for staff to work their way up. This is good for building motivation and it is advisable for AAB to keep this structure to help build self-actualisation among staff.

In conclusion, I believe the advantages of their organisation structure include short chains of communication and self-actualisation but it is confusing and isolates some staff. Therefore, it may be a good idea for the firm to simplify the organisational structure and encourage communication between the three companies. This may help to improve staff motivation and may also improve efficiency.

### Commentary

Again the response lacks a clear structure. The first paragraph is very vague and shows weak understanding of how the three structures work. However, the second and third paragraphs include some understanding of how AAB's organisational structure leads to unclear chains of command in the whole structure but clear functional chains within each individual structure (Level 2). These points could have achieved Level 3 if clear contextual impact was given. This could have been achieved by naming positions in the structures and showing how the issues occur.

On the second page the response attempts to use named positions by pointing out that the design team could feel isolated and so lack motivation, but then does not show how this impacts on the business itself. It could have suggested that this might lead to fewer cutting edge designs so lower sales.

At the bottom of the second page the response says 'the firm uses a flat organisational structure', but it isn't clear which appendix this is referring to, so the following discussion remains generic and limited to **Level 2**.

The final paragraph repeats previous discussions rather than evaluating to what extent AAB's success will be limited by their organisational structure.

## Question 5

### Answer

Evaluate the extent to which different stakeholders will benefit from the information provided in AAB's final accounts.

Firstly, a stakeholder is somebody that has an interest in a firm. AAB's shareholders may benefit if they were able to identify a £1,424,000 loss in 2013 they may be able to work with AAB in order to bring the company back to 'profitability in the next 12 months'. This means that it may be suitable for AAB to do this as it would lead to new ideas being implemented into the business. However, shareholders may just withdraw from the firm.

Also, customers may benefit from seeing the final accounts. This is because they would identify that AAB is making a loss and may provide them with a morale responsibility to purchase from them. This may help AAB to 'return to profitability' although I do not believe that the impact on customers will be that significant.

On the other hand, employees may benefit a lot from the information because they will be able to identify the £1,424,000 loss and may be able to provide ideas to help the firm. However, they may feel demotivated or feel as if their job is not safe and may leave. This may benefit the staff but can also create a demotivated workforce that may lead to even more problems for AAB. Therefore it seems that it may cause more disadvantages than advantages to staff which means that it isn't that important for them to see the final accounts.

Also, suppliers may benefit from seeing the final accounts because if they know that the number of creditors due has increased from £28,881,000 to £31,556,000 they may refuse to supply AAB. This means that they would be reducing the risk that they are taking by supplying AAB but this means that AAB may lose a lot of suppliers. It is therefore important for suppliers to see these accounts in order to prevent risks taken.

Finally, it is important for lenders to see this information. This is because they will be able to identify the increase in credit to £31,556,000 and may lead to them not lending to AAB. This would also prevent risk to lenders and the benefit is that they would not potentially lose their investment. It is therefore important for them to see this in order to assess the risks.

In conclusion, I believe that it is mostly important for lenders and shareholders to see the final accounts because they appear to be taking the greatest risks. Also, I believe that it is insignificant for employees and customers to see because it would probably have only a small impact on them, compared to the effect on the other stakeholders.

### Commentary

This response demonstrates how the candidate achieves marks more easily when they follow a clear structure.

Low Level 2 is achieved in the first paragraph by identifying that shareholders will be interested in returning AAB to profitability. However they then attempt to apply the same logic to customers, which is less appropriate. A more successful application is made to employees who may be demotivated by the lack of profits and fear for their jobs (Level 3).

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The impact on suppliers also achieves Level 3 as they may be worried by the increase in creditors. The same point is repeated for lenders.

The final paragraph attempts to be evaluative (Level 4) as it judges which group of stakeholders will be most affected and follows on from appropriate analysis (Level 3). It was awarded **16/20 marks**. This could have been higher Level 4 if it was more contextual. For example, it could have recognised the fact that AAB's only shareholders are also the two Chief Executives so have access to more information than just the final accounts.

## CANDIDATE FOUR

This candidate achieved a grade C by achieving reasonable marks for the short answer questions, in addition to two Level 2 responses, one Level 3 responses and a Level 4 response in the long answer questions.

### Question 2b

#### Answer

AAB should use marketing techniques such as the Boston Matrix and Product life cycle to evaluate how the products AAB currently have are doing.

AABs ultimate mattress is in the dog stage in the Boston Matrix. This should not be happening as the market for baby cot mattresses have grown by 3% (line 48). This tells us that that AAB should evaluate what they should do with the product as it has already reached the decline stage when its only been in the market for 3 years (line 47)

AAB may have to implement extention strategies in order for the product to stay in the market for long. The advantages for this is that if it is successful then the product could stay in the market for longer resulting in higher sales and profit.

However this process is time consuming because it takes time to develop strategies. There is also an opportunity cost lost they could have instead promoted the Healthysleep which is seen as a ground breaking product (line 57). This means there could be more potential for this product. If the extention strategies are unsuccessful this means that money has been wasted through promotion. Costs could be very high if above the line promotion is used.

If the product is a success then you are likely to see good returns in profit.

AAB may have to stop selling ultimate spring mattress in the market in order to cut down costs. As having high costs of products which do not sell is expensive as you have unnecessary stock.

In conclusion it is essential for AAB to look at its Boston Matrix and Product life cycle in order for the business to achieve its objective of returning to profitability in the next 12 months. It is also necessary to ensure the products in there wide product portfolio sell.

#### Commentary

This was a **Level 3** response overall. It begins by using lines 45-48 of the case study which mention that the 'Ultimate' mattress is in decline despite a growing cot mattress market. The candidate doesn't just repeat these lines but adds that this mattress is a dog in the Boston matrix (Level 2) and suggests that AAB should evaluate the product because of its short life and use extension strategies (Level 3 BOD). Further analysis comes from considering that extension strategies may not always work, resulting in money being wasted on promotion or that they may involve an opportunity cost

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(Level 3). The response then considers that the 'Ultimate' mattress could be dropped from the portfolio to cut stock holding costs (Level 3).

The final conclusion doesn't evaluate the use of the techniques but demonstrates fairly generic understanding of how they help businesses (Level 2). If more mattresses had been used in the response, then it would have more clearly shown how a wide product portfolio is necessary to ensure profitability. Evaluation could then come from discussing to what extent AAB's products follow the expected patterns.

### Question 3

#### Answer

AAB could improve its waste management by cutting down on the number of subcontractors they have.

AAB have many sub-contractors in the far-east by having too many sub-contractors. It is difficult to monitor which sub-contractors are doing a good job and which ones are not. This has caused some problems as they have ran out of stock of key items (line 85).

AAB could also use Quality Assurance to increase quality. This can be done through monitoring each stage of production. This will result in AAB having higher quality therefore less waste and higher efficiency.

However the process can be expensive which may mean you have to sell the product at a higher price. AAB could potentially lose customers if prices are too high due to competitors offering better rates.

AAB could use the Kaizen approach to improve waste management and efficiency. This involves seeking continuous improvements. The advantages are that high motivation will be an effect of Kaizen as they have greater sense of responsibility. This could mean that output could potentially increase.

However the costs to train staff are high because you need to train every staff to the way you want. Some staff may not want change so it could also cause demotivation for staff. There could also be conflict if staff do not get along.

In conclusion AAB could improve waste management and efficiency by cutting down on subcontractors They can also reduce growth temporarily to ensure they have enough stock as AAB are growing too rapidly by opening a new store every month. AAB could also use quality assurance to reduce waste or Kaizen which is seeking continuous improvement. They could also reduce waste as some of the products go to the Gatwick Depot only to go back to the far east. They may have to evaluate this to increase efficiency.

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## Commentary

Overall, the solutions lack application to AAB's context. Therefore this answer was limited to **Level 2**. The first suggestion does not analyse the impact of reducing the number of suppliers, such as being able to benefit from economies of scale (possible Level 3).

The proposal to use quality assurance shows understanding of how it works ('monitoring each stage of production'...'higher quality'...'less waste') which is evidence of Level 2, but does not achieve Level 3 as it lacks context and does not explain why it would be more expensive to introduce. Quality assurance could have been contextually analysed by considering that with a rapidly increasing number of stores, it would be difficult to ensure that all members of staff were fully involved in a new quality assurance programme. The lack of context continues to the idea of Kaizen.

The conclusion repeats some of the points raised (REP) and includes a discussion about slowing growth (Level 2) and that the Gatwick depot causes waste (Level 1). At this point the response could have considered whether reducing the number of suppliers or introducing quality assurance would have been the most appropriate method of reducing waste for AAB (possible Level 4).

## Question 4

### Answer

AAB are currently having problems with the organisational structure. This could effect the businesses long term future.

AAB currently are in a decentralised structure. This has caused problems as you have Elizabeth and Peters in charge of 100 people in the design team (line 31). This is surely inefficient as it is difficult for two people to control 100 people.

However an advantage of having a decentralised structure is that staff have higher motivation as they feel valued.

Another problem with the structure is that its complicated as it is interlinked with 3 companies (line 103–104). This is overcomplicated as you have 10 directors five of who are family members. However an advantage of this strucure could be there could more specialisation between the three companies. This could mean the problems they have may just be temporarily.

Another problem with the current structure is the role of Jeremy Hammond the Strategic Oversight director. This role should surely be done by Javier who is the Chief executive. This could be an extra cost to the business due to his role as Javier should be doing this.

However Jeremy Hammond may be better at this job than Javier. Hammond is also not a family member which means there may be no conflict towards his role which could have been the case had this role been given to AABs family member.

In conclusion AAB is having problems with the current organisation which is why they have now got a management consultant (lines 116). AAB should change to a centralise structure as the current structure is not working. Managers will therefore have more power however this could mean high labour turnover which could affect the Business. They may have to evaluate the role of Jeremy Hammond and the fact that the Business is interlinked in 3 parts which could affect the business due to unnecessary costs which could affect its future.

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## Commentary

This response was only able to achieve Level 2 as there were significant weaknesses in interpreting AAB's organisational structure.

The candidate suggests that AAB has a decentralised structure but doesn't provide evidence to support this. In fact they then contradict this point by saying that a weakness of the structure is that Elizabeth Mogán and Peter Thompson are both in charge of the 100-person design teams and that this leads to problems. However, Elizabeth is the design team director and line manager for the design team leaders; therefore there is a clear line of control and sufficient managers for 100 people. The response then returns to the issue of decentralisation but gains no more than Level 2 as there is no context. To improve this response the candidate could have identified the confusing position of one of the marketing teams who are overseen by Overseas Marketing Manager and International Distribution Director, so there is no clear chain of command. Therefore this team could make mistakes in dealing with new overseas markets which could affect the growth of sales in this area (Level 3).

The response then repeats lines 103-104 of the case study regarding AAB's structure being complicated. But the line of argument is obscured by mixing family ties with the number of directors and a timescale.

The second and third paragraphs on the second page relate to Jeremy Hammond's position as Strategic Oversight Director and suggest that this could be Javier's role. This shows a misunderstanding of how real companies like AAB behave.

The final paragraph repeats the issues mentioned above without attempting an evaluation. A better conclusion could have been drawn from considering the extent to which these issues are likely to affect AAB in the short or long run given their drive for rapid expansion.

## Question 4

### Answer

Evaluate the extent to which different stakeholders will benefit from the information provided in AAB's final accounts.

Internal stakeholders such as managers and employees could benefit because although the business is making a loss. There is potential for growth as the value of current assets has gone up from 3078 to 3866 this means they do not have to worry about their future as there are signs things can improve.

However the fact that spending has gone up has resulted in debts rising creditors due in the next 12 months rising from £19875 to £24,399 which is a big increase. This could cause a negative impact which could cause demotivation as the business is not doing too well.

External stakeholders such as suppliers could benefit as the fact that they have brought more stock implies the business is growing which means that suppliers could be put at ease because it has increased from 23,452 to 28153.

However suppliers may be worried that they have not made profit. This could concern them as the previous year they made a profit of 5480 before tax only for it to be -1424 which is a massive change in one year

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Customers may be put off from buying the products due to the business having made a heavy loss which could affect the brand image of AAB.

However if the business is still keeping up with competitors then it shouldn't be too much of a concern. This is because they are still matching competitors with quality and price. The losses could be due to opening a store every month AAB should consider closing down under performing stores to return to profitability.

In conclusion stakeholders may not be concerned despite making heavy losses as there is room for improvement. Value of current accounts has gone up which means there is room for growth. However in the short-term stakeholders may not benefit because of heavy losses but if they improve areas they can benefit.

## Commentary

The first paragraph combines two stakeholder groups who might see things from different perspectives (managers and employees). It suggests that, despite AAB's loss, these groups may benefit from seeing current assets have risen but quotes the cash figures. The following statement also suggests that creditors due in next 12 months has risen, but again quotes the wrong figures (those for creditors due after 12 months).

The discussion about suppliers does take a stronger form and achieves Level 3 BOD. It suggests that suppliers' minds will be put at rest as they can see that stock has risen (using the correct figures, though without the '£000s'). This is then analysed by considering that suppliers may be worried by the sudden transition from profit to loss.

The issue of customers being put off by a heavy loss is a little vague as the loss is only 1% of turnover (Level 3 BOD). However, the impact of this is weighed against the fact that AAB is keeping pace with competitors in terms of quality and price, which is an attempt to be evaluative (**Level 4 BOD**).

The final paragraph doesn't consider specific stakeholder groups mentions the 'value of current accounts has gone up' which could refer to assets and/or liabilities. It would have been better to use suppliers as a stakeholder group and discuss the fact that, as AAB has been trading for many years, suppliers will not necessarily be concerned over a loss of profits in one single year (possible Level 4).

# CANDIDATE FIVE

This candidate achieved a grade D by gaining reasonable marks for the short answer questions, in addition to two Level 2 responses and two Level 3 responses in the long answer questions.

## Question 2b

### Answer

AAB will benefit from using the Boston Matrix and the product life cycle because they organise the products in regard to market share and market growth. It is easy for AAB to identify the products which are doing well and which aren't which could need AAB's attention, such as rebranding or repricing.

The Boston Matrix benefits AAB because it organises the products into 4 categories : dog, problem child, cash cow and rising star. Through categorizing the products AAB can identify the products which need extra promotion, rebranding or re pricing in order to attempt to regain sales. Through organising the products in this way, AAB will be more likely to reach the objective of returning to profitability in the next 12 months.

By using the product life cycle, this too, categorizes products to show from when they're just introduced right through until its had all of it's customers and is not having a decrease in market share. Through AAB using the product life cycle they're able to keep an eye on which products are doing well and which aren't. AAB could use the position in the product life cycle to chose the appropriate price for the product.

Altogether I can conclude that the Boston Matrix and the product lifecycle have numerous benefits to AAB which include knowing when to rebrand and promote them and to know when to take them off the market. It also shows AAB when they're doing really well. Through this AAB can tell when they're techniques of designing/manufacturing/promoting are working positively or working negatively so the can increase efficiency.

### Commentary

This response is a little confused but demonstrates enough understanding for Level 2, 5 marks. It could gain no more than Level 2 as there is no attempt to use Table 1.

The first paragraph identifies the product portfolio techniques but then links them both to market share and growth (which is only applicable to the Boston matrix). A stronger response would concentrate on the Boston matrix and link market share and growth to marketing decisions such as 'milk, divest, hold and build'.

The bottom of the first page shows evidence of Level 1 by identifying parts of the Boston matrix and follows with a better explanation of how it aids decision making (**Level 2**).

The next paragraph does show weak understanding of how the product life cycle can be used to make pricing decisions (Level 2 BOD).

The last paragraph adds no more to the discussion.

### Question 3

#### Answer

AAB have been trying numerous strategies to try and improve waste management and efficiency (line 82-13).

At the Gatwick depot AAB are repackaging their products when they're sent in from the Far East. This will cause waste because the old packages won't be used. This could be improved by AAB leaving the same packaging on their goods and just adding an AAB stamp over. Therefore no waste is produced.

AAB could become more efficient by sorting out the problem of 'incomplete orders' (line 89) that are being sent to many of AAB's outlets. There are only small and extra-large baby growers being delivered which is missing out at least 2 other sizes. This error could be due to AAB growing too fast to quickly. This problem could be resolved by AAB considering slowing down growth slightly. They've just opened a new depot and just implemented new systems at the same time so there's no wonder mistakes are being made. In the long term these changes will increase efficiency but in the short term they're causing errors because they aren't working efficiently yet and they've just been introduced so people are getting used to it.

Altogether I conclude that AAB need to slow down growth slightly and keep the packaging on that products come with from the Far East but put an AAB stamp on it. I believe AAB are growing too quickly and are suffering from diseconomies of scale, such as the error with the babygrowers. In the long term they could implement new systems but slowly ensuring all the staff are aware on how to use it efficiently. AAB are trying to grow too fast.

#### Commentary

In contrast this response is contextual from the start and so quickly moves up the Levels of Response to achieve **9/16 marks**. It begins by identifying and explaining a suitable method for AAB to reduce waste; adding a sticker to the original imported packaging (Level 2). This could have been developed to Level 3 if clear impact on AAB had been identified. For example, adding a sticker could reduce AAB's high quality image and reduce sales.

The response then suggests slowing the rate of growth in the short term to allow new stock control measures to settle in, so incomplete orders are not sent out (Level 3).

The final paragraph is a repeat of the first two so gains no further credit.

This answer could have developed to Level 4 by judging which of the two suggestions is most appropriate for AAB or discussing the suitability of slowing down growth in the current post-recession market.

## Question 4

**Answer**

AAB's future success will be determined up on its ability to adapt. The current organisational structure has significant flaws such as too many directors and too much family involved.

In a organisational structure, such as AAB's the optimal number of directors is 4 – 5 but AAB has 6 which is slightly too many. AAB will need to review this as they're currently doing as they've hired a 'management consultant' (line 116). AAB have done the correct thing here by getting external help so they can review the company without bias. Since the company has a relitively large span of control, this could have a detrimental affect on AAB because they could suffer from diseconomies of scale such as lack of control or a break down in communications. AAB seem to be on top of this factor and are controlling it however it will have to be monitered because it could cause AAB to not succeed.

In AAB's organisational structure 5 out of 10 directors are Javier and Elizabeth's family. AAB in some ways benefit from this because they're about to advertise the business as a family run one, which will attract customers especially in a nursery market. This gives AAB a good image.

However AAB have many family members high up in the business, which arises the question of 'are they trained and experienced in that job or are they just in that job because they're family, which could have a detrimental effect upon the business. Families are also prone to falling out which could cause tensions within AAB. When Javier and Elizabeth retire who is to take over? because they have 3 daughters and they all can't surely be incharge.

Finally, AAB is made up of 3 interlinked companies, a parent company, a retail company and a product company. Product employs over 1100. These are very large departments and significantly complicated if these department where to break down then AAB's future success would be bleak. AAB need to un complicate their organisation structure to help AAB's future success. The most important factor in the short term is to decrease the number of directors to uncomplicate the structure. This could also make AAB more efficient. In the long term the most important factor is that AAB sort out what will happen when Javier & Elizabeth retire because if it isn't pre-determined, the whole company could fall apart.

**Commentary**

This response begins by identifying two clear issues; the number of directors and the inclusion of family in the organisational structure. Which is a good sign that some thought might have gone into the structure of the response. However the response only achieves **Level 2 (6/16 marks)** as it diverges from these issues.

It suggests that AAB has six directors. It actually has two chief executives (one of which is also a director) and 10 other directors. However, at this point to there is a discussion on the role of the management consultant (NAQ). It then returns to the issue of the large span of control causing communication problems (Level 2). This could have been more clearly developed by correctly identifying the number of directors and showing the consequences to AAB of poor communication to achieve Level 3.

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The second issue of family members attracting more customers is weak as AAB has always been family run. However, the answer does demonstrate some understanding that family members can affect a business by causing conflicts (Level 2).

The addition of a discussion on merging the three parts of AAB's organisational structures shows a lack of understanding of the nature of the business.

The last paragraph demonstrates a naive evaluation that candidates often attempt when faced with a choice. They say that one could be used in the long run and the other in the short run. A better evaluation could have been to consider the suitability of reducing the number of directors considering that many are family members.

## Question 5

### Answer

The customers minds may be set at rest by the final accounts because they'll be able to see where AAB's money has gone. They'll feel more comfortable to purchase from a company they understand. If AAB keep the trust of the customers they'll be increasingly likely to reach their objective of returning to profitability in the next 12 months.

The employees minds wont be put at rest because even though AAB have published a sheet of the final accounts it doesn't mean that they can count on having a bonus or a pay rise for a while.

AAB only has 2 shareholders, Javier and Elizabeth so they will be confident in their business but wont be happy with a pre-tax loss. They'll be affected by what they think the pre-tax loss's affect upon the shareholders may be.

The competitors will be pleased about AAB's pretax loss because they'll think that there is room in the market now for them and the competitors may start spending money on promotion in order to gain the previously AAB customers.

Altogether, a pre-tax loss only benefits the competitors. Since the final accounts have being sent to companies house they are available to the public so Javier and Elizabeth may think that this will comfort the stakeholders. The employees significantly wont benefit from the loss and the final accounts because they wont be getting a pay rise of a bonus however hard they work. The shareholders (Javier and Elizabeth) have released the final accounts in a bid to set minds at rest of the shareholders.

AAB could set the minds at rest futher by reaching their objective of returning to profitability in the next 12 months, AAB may also need to consider selling 49% of the shares of the stock market as it is a good way of gaining capital quickly but will also ensure Javier and Elizabeth keep 51% of the shares which keeps them in control of the business.

In the long term the most significant stakeholder is the employees because it's them who need to keep motivated to ensure AAB is kept efficient. In the short term the most important stakeholders are the customers because they need their minds set at rest so that they continue to feel confident shopping at AAB. AAB need the customers in order to reach the objective of returning to profitability in the next 12 months through sales.

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## Commentary

This response demonstrates some understanding of how stakeholders use the final accounts and attempts to analyse their impact (**Level 3 BOD, 9/20 marks**). Higher Level 3 could have been achieved by concentrating on fewer stakeholder groups as the response confusingly moves back and forth between several groups.

The first two stakeholder groups of customers and employees do not securely identify how they use final accounts as it makes no reference to the accounts. The following discussion does use the accounts as it links the shareholders' interest to the pre-tax loss (Level 2). The impact on competitors of seeing AAB has made a loss (Level 3 BOD) could have more clearly stated that AAB may have to increase their prices so customers would be more easily lost. Therefore competitors could react by increasing promotion of their own products.

There also follows a better attempt to describe the impact of the final accounts on employees who may not expect a pay rise (Level 3 BOD).

Towards the bottom of page 2 the response moves away from answering the question to discussing AAB's profitability (NAQ) and who are the most important stakeholder group (NAQ). Evaluation could come from discussing who is the stakeholder group most affected by AAB's accounts.

# CANDIDATE SIX

This candidate achieved a low E grade, only providing Level 2 responses in the four long answer questions.

## Question 2b

### Answer

AAB has a wide range of products however they all need to be monitored to make decisions for the future. One benefit is in the Boston matrix they can see if the product is a star, problem, child cow or dog and if a product starts to fall they will be able to notice and act in time to stop AAB from losing money. Also they may see that if a product falls into the dog category that they need to make a decision to remove it from the product list and design a new matter just like they did with the healthy sleep. With this system in place there is a constant flow of product at each stage so there is a constant flow of income and they will always have time to prepare for different situations. The same factors apply with the product life cycle as it shows introduction, growth, maturity and decline which benefits AAB as they can clearly understand where their business is in a simple and fast way. Also the product life cycle benefits AAB as they provide products that are customer orientated so this allows them to see when products hit different stages what the customer demand is, for example if the product is in the growth sector then the customers like it so AAB would look at these statistics and know where to invest their money to gain the most revenue. Also it benefits AAB as they are a LTD so they have to show how well they have progressed in the financial year to attract custom and even though they are the only two share holders they will need to show information to the stakeholders such as the government. The Boston matrix and the product life cycle both have the advantage of showing this information as the general public can see how well products are doing and the market share of AAB and this benefits AAB because they will have to employ less people to draw up statistics and where the business is at at this particular time so it's faster and saves money which in return will lead to them having more revenue or turnover at the end of the financial year. Also so if they ever needed to raise finance then the information shown would go a long way to securing this so they would have more money to invest or revitalise existing products so that the product portfolio could be successful. For example they may need to invest money into the supreme mattress to enable it to move to the growth period.

### Commentary

The candidate appears to have some understanding of product portfolio techniques, but doesn't use the case study effectively to show impact. The first page of the response demonstrates knowledge of the Boston matrix by naming the types of products (Level 1). Eventually, at the bottom of the page, it makes a clear link between the matrix and how firms react i.e. a dog could be withdrawn from the market to stop AAB from losing money. This is not contextual. By simply naming a dog mattress, such as the basic foam, this could have been awarded Level 3. The next point about the introducing the new healthy sleep mattress is more appropriate to the product life cycle than the Boston matrix. The

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response then continues to demonstrate generic Level 2 understanding by explaining that the matrix helps a firm to have a continuous income.

The product life cycle, starts at Level 1 with naming its components. However, much of the following discussion is too vague and confusing. The growth stage of the life cycle could have been applied to the pocket sprung mattress and developed to show how AAB would benefit from making a profit at this stage, but would need to keep an eye on competitors copying their product (potential Level 3).

The final sentence about investing in the 'Supreme' mattress could have more clearly explained that at the introduction stage it needs support to reach the growth stage. The mattress is not an established product so does not require revitalising. This was a **Level 2** response.

### Question 3

#### Answer

Waste management is a problem for AAB however they have started making the process more efficient. Firstly they have introduced a faster turn around time from four weeks to six days which has made the business run to full capacity and will also increase customer demand. AAB could further improve this by using JIT process in the factories where the goods are produced as this would enable them to have less money tied up in stock so they could use it for other aims and objectives such as improving the product portfolio. Also less waste would be created so they could save the environment as well as saving money. Which could improve the efficiency of the whole business as the expenditures could be paid faster so they can order new stock so they remain up to date with the lead time so AAB is being highly productive which leads to the works being motivated. Waste management can also be controlled in many other way such as recycling schemes where 90% of their material could be recycled as this would make AAB more efficient with a waste disposal system. It will also help the environment as well as save AAB money on waste disposal. For AAB to improve efficiency in the whole business they could invest in new technology such as machinery as this would increase the output of products at a cheaper rate. Or to enable workers to create outputs to the full capacity they will need to have the buildings designed to enable this and have the correct equipment to allow workers to work effectively as in Taylor's theory that if they have the right tools and equipment they will be successful. Also AAB organisation structure is very large and a lot of it is democratic so in order to improve the efficiency of the business they may need strong leadership so they could change to being an autocratic and a centralised business so everybody is aware of what is happening in AAB. Waste can also include pollution and a technique that AAB have used is reducing the number of cargo firms from 12,100 to 6 which has decreased the waste levels dramatically. However they still use close to 100 different suppliers across the far east so to reduce the waste levels even more they could half this number or have suppliers in the UK so there is less transport involved so less waste and pollution will occur. Also to make the business more efficient AAB may want to consider expanding as it's not always the best option as it would be more efficient and cost effective to remain with the stars they have and make them run to full capacity to increase AAB's profit levels.

... continued

## Commentary

The response tries to make too many points, developing none beyond Level 2, not using the case study and making confused statements. It begins by saying what AAB already do to improve efficiency (Level 1). Then it is not clear that they know how JIT operates (Level 2 BOD). They could have said that JIT is where stock is only delivered exactly when it is needed to secure Level 2. The rest of the page is not contextual, therefore is limited to **Level 2**. The candidate appears to have forgotten that AAB are a wholesaler/retailer and are not involved in production.

On the second page, the use of technology is mentioned (Level 1). Again this is not contextual nor fully explained (Level 2BOD). Technology could have been applied to AAB's stock ordering system so that incomplete orders were not sent and popular sizes were available, therefore increasing potential sales revenue (possible Level 3). The discussion about leadership does not answer the question, nor is it contextual that AAB is democratically led, nor does it make sense that a centralised system will keep everybody informed.

The last page mentions that AAB could halve the number of suppliers or change to UK suppliers to reduce waste. These points could be developed to show how this would lead to lower costs through economies of scale or better supplier links to achieve Level 3. The final point about not expanding the number of stores is also relevant but weakly explained.

## Question 4

### Answer

AAB runs a flat organisational structure made up of family members. This is the parent company organisation structure. This can affect the future of AAB as the management is very effective and products as jobs are delegated to them from the chief executive Javier Morgan. However under the management leading from the managing director Peter Thompson is a large span of control which centres on a tall organisation structure. This can be a positive thing as there are always enough workers to carry out the jobs, however when delegating messages they can often become lost in translation which will lead to the failure of AAB over time. To avoid this from occurring Peter Thompson will need to have a leadership style that works as at the moment the system is very democratic as workers are expected to be self-motivated and independent however this can lead to problems if the workers are not self-motivated so as stated in Taylor's and Mayo's theory of motivation string leadership will be required such as being an autocratic leader instead of being democratic and they may need to consider delayering to ensure that communication is achieved which is key to the success of the business. Also it would be a good idea to make the product organisational structure flat and centralised so everybody is aware of what is going on. For the retail organisation structure it applies the same principles of the production structure. However in this case the way to ensure the success of AAB is to train all the workers to a high standard as only two of the managers are family members who have been trained. It's also very important that everybody is trained in the same way so that we can imply all the policies to make the business effective. Also we can see from the structure that a large majority of it is made up of managers this can be beneficial to AAB as clear instruction and guidance can be given to workers when they need it so they don't feel alone or under pressure however it can

... continued

work the opposite way and make workers feel under pressure. In conclusion I think AAB's biggest concern is they are expanding and the organisational structure is getting out of control they need to apply some of the techniques mentioned earlier. The main way they can improve is having the business more top heavy and have stronger leadership as this will ensure the whole business is successful. Another important factor are the workers and they can not run without these so they need to keep them focused and motivated by using motivation techniques.

### Commentary

This **Level 2** answer appears unstructured and confused. Too many points are raised, many of which do not answer the question. On the first page there are some attempts to use appropriate terminology in relation to AAB's organisational structure. For example, the parent company is described as being 'flat' and Peter Thompson is said to have 'a large span of control' (Level 1). However neither point is justified nor analysed. It could have said that the flat structure comes from only two levels of hierarchy which results in shorter chains of command so quicker downward communication which will help AAB respond to changes in the market such as the recent recession (potential Level 3).

The rest of the response fails to address the question or make use of the organisational structures in the appendices. The candidate appears to be confused about delegation and goes on to discuss irrelevant issues such as leadership style and motivational theory (NAQ). There are two vaguely relevant points on the second page where it mentions that delaying can improve communication and that managers ensure everyone knows what to do (L2BOD). A Level 4 response would take two or three issues identified from the appendices and show how AAB would be affected by them, then judge which issue is the most significant.

### Question 5

#### Answer

A stakeholder is a person who has an interest in the business AAB has many stakeholders AAB has many stakeholders the main one is their employees and they will benefit to a large extent from the information in the financial accounts as they will be able to see if their jobs are secure as they will realise if AAB can pay their wages and if the accounts are negative that will give them time to start looking at other places for employment. Also the government will be interested as they will want to know if the right amount of tax has been paid. The government is also in charge of raising and lowering interest rates and they will be able to see how this has an effect on business as AAB because as we can see the interest rate has risen by 40 from 2012 – 2013 also with this as well we can see that expenses were higher as they increased by 87% over a year and this data will show the government on a global scale what is happening as a result of their actions. Also this data is of great importance to the customers of AAB as they will be able to recognise if they are being charged too much for the products purchased as it will show what the expenditures are as well as the income. AAB's costs of sales has increased as well as their turnover so in 2012 they had 131,935 turnover and in 2013 they had a turnover of 141,588 which is a percentage increase of 93% even though costs of sales have risen by 88%

... continued

so the customers will be able to see that they are being charge a to high price for the product. Also the suppliers are a very important stake holder as they will want to know if AAB can be trusted with trade credit and they will always want assurance that the goods they order will be paid for on time so that they are not at a lose and as they can see AAB's oporating profit has risen by 88% from £665 – £705 which will but the suppliers minds at rest and this will help a large extent of people as AAB has many suppliers. Overall I think showing the final accounts will affect people to a large extent as it will help them plan for the next year and it will help all the stakeholders with planning. However it could put AAB at a disadvantage because they may lose employees business and suppliers if the interprite the data as inadiquite so AAB needs to plan carefully what it shows the public so it can put their minos at rest but not leave thom at a disadvantage.

### Commentary

The candidate writes in a more structured way in this question by addressing a stakeholder group at time, but makes several mistakes in interpreting accounts and how they are used. They correctly describe how employees are affected by final accounts (Level 2) but without using AAB's actual accounts. Then confuse the use accounts by governments by saying they will find an individual firm's accounts useful for determining interest rates and giving a global scale picture. They also consider that consumers will think rising costs of sales means they are being charged too much because the sales turnover has risen by more. However, turnover has risen by only 7.3% and cost of sales by 12.7%, so it is the producer taking the burden not the consumer. Therefore this is not contextual.

From the middle of the second page they correctly describe how suppliers will look for information to judge the level of trade credit (Level 2) but then incorrectly identifies AAB as having a rising profits because they have used the figures for interest paid not operating profit. The final page concludes in a generic way so cannot achieve more than **Level 2**.

The candidate could have improved this answer by correctly identifying suppliers as losing faith due to AAB's loss and employees feeling more secure due to AAB's rising turnover. Evaluation could then result from identifying that as AAB has been trading for more than 30 years, many of their employees and suppliers may not be solely reliant on two years of final accounts in making their judgements.

# CASE STUDY

## All About the Baby Ltd (AAB)

All About the Baby Ltd (AAB) owns two companies which design, develop and sell high quality, stylish products for the nursery market, both in the UK and overseas. Its headquarters is in Plymouth, where products are designed and all administrative functions take place. The products, however, are produced by sub-contracted firms in the Far East. These products are then sold in 60 AAB branded retail stores, as well as being stocked by over 200 independent and national retailers, in the UK. AAB is still privately owned by husband and wife, Javier and Elizabeth Mogán, who are the only shareholders. This is unusual for a company with annual sales of over £140 million and with a significant international presence. 5

In the 2012–2013 financial year AAB's turnover rose by over 7% on the previous year, although it made a pre-tax loss of £1.4 million compared to a pre-tax profit of over £5 million the previous year. This was mainly due to large increases in raw material costs, higher shipping charges and a fall in profit margins. However, in the latest company report, AAB is confident that 'the business will return to profitability in the next 12 months' and that 'growth in the business will continue into the future'. 10

In a recent feature for a leading newspaper, Javier and Elizabeth were asked how the company had evolved over the 30 years it has been in existence. Javier told of his impressions of the UK nursery market when he first arrived from his native Spain. "Back in the 1980s all the baby products were quite boring and functional. But when it is your baby, you want the best and it's a very strong emotional time in your life. Therefore, we wanted to introduce more fashion and emotion into the products which were available. We like to think that we changed the nursery industry. For example, the once boring pushchair is now a fashion accessory; it says who you are." 15 20

Elizabeth went on to explain, "After the first 15 years of the business, when we were purely an importing and wholesale operation, we realised that our retail customers could no longer handle the growing range of products which we were importing. That's when we took the then risky decision to become a retailer as well. We opened our first store in Exeter in 1999 and, in November this year, we are opening our 61st store in Northampton, the eighth new store in 12 months. Over the next year the plan is to open a new store in the UK every month. This is at a time when our main UK competitor has closed a quarter of its stores. We also now have a very strong online presence, where our full range of products can be bought, and we have just launched a Eurozone website." 25

Javier and Elizabeth are still very much the driving force behind AAB: Javier as Chief Executive and Elizabeth as the director in charge of the 100-person design team. Along with the Managing Director (Product), Peter Thompson, they are currently carrying out the quarterly review of the AAB product portfolio. This consists of hundreds of different products, including maternity and baby clothes, pushchairs, car seats, nursery furniture and decorations, toys and feeding utensils. All of these products are exclusively designed by, and made for, AAB. Each quarterly review looks at a selection of products (so that every product is considered once a year) and examines their market share, market growth and all aspects of the marketing mix. The September meeting, for example, spent a lot of time focusing on the range of mattresses for standard-sized baby cots. 30 35

Peter began by presenting the data in **Table 1**. "As always, there is a bit of guesswork in terms of each product's market share. We know how difficult it is to identify the competitors for each product, never mind their sales. However, a couple of our larger independent retail customers have helped us out with some 'ballpark' data. We have also assumed that market growth rates, for each product, are very similar to our own sales growth figures." 40

### AAB's range of mattresses for standard-sized baby cots sold in the UK

Product	Retail price	Stage of product life cycle	Estimated market share (year ending August 2013)	AAB's sales volume growth (year ending August 2013)
Basic foam mattress	£32	Saturation	Low and falling	-0.7%
Deluxe foam mattress	£54	Maturity	High and rising	0.6%
Sprung interior mattress	£80	Maturity	Low but rising	1.2%
Pocket sprung mattress	£160	Growth	High and rising	5.7%
The 'Ultimate' mattress	£240	Decline	Low and falling	-1.3%
The 'Supreme' mattress	£399	Introduction	Low	3.5%

**Table 1**

"This is quite a mixed bag of data", began Javier. "I'm pleased to see the 'Supreme' mattress we launched last year has made a good start, there is certainly a lot of potential there. However, our previous top-priced mattress, the 'Ultimate', has lost a lot of market share. It's only been on the market for three years and it's already in the decline phase – and this is at a time when the overall market for baby cot mattresses has grown in value by about 3% in the last 12 months!" 45

"Well, I'm more concerned about the bottom end of the market," replied Elizabeth. "Some decisions need making there about the whole marketing mix of these products or maybe even about their long-term future." 50

Peter, however, really wanted the discussion to focus more on a new product AAB is developing, before they got too involved in the minutiae of altering the mix for the established products. He actually believed that very little needed changing in the marketing mix of the mattress products. After all, they were such a basic product that all parents needed to buy and he, personally, felt that the range offered by AAB was already excellent. However, the new mattress, currently nicknamed the 'HealthySleep' and due to be launched in February 2014, is potentially a ground-breaking product for AAB. 55

The 'HealthySleep' mattress is a joint partnership with a leading UK mattress firm. The mattress is designed to help babies enjoy healthy, cool and comfortable sleep. It achieves this by using a new patented fibre which provides: 60

- breathable fibres which are designed to stay cooler and so help healthy sleep
- a clean, safe and hypoallergenic material which contains no chemicals, odours or organic compounds
- environmentally friendly gains, as the fibre is made up of 50% recycled materials. 65

This mattress will be available in one size to begin with and will be sold exclusively in AAB's own stores. Peter really wants the meeting to give the product the final 'green light' and to agree a pricing and marketing strategy. Given the benefits of working with a large and efficient producer, with production facilities in the UK, Peter thinks that AAB can set the retail price somewhere between £250 and £300. 70

A significant change to the AAB brand in the last 15 years has been its overseas expansion. About 12% of AAB's sales come from abroad and there is a five year plan to increase this to over 20%.

In addition to AAB's UK retail stores and its retail stockists, AAB has over 30 franchise stores in Europe, the Middle East and Japan. There are also distribution partners in Russia, South Africa and China. This arrangement leads to AAB's products travelling thousands of miles between conception and birth. The products start as designs at the Plymouth head office. They are then produced by many sub-contractors in the Far East and these finished products are delivered to a central distribution depot a few miles from Gatwick Airport. Stock is then sorted and repackaged for delivery to AAB's own UK stores, as well as its UK stockists, international franchises and distribution partners. This is a huge logistical exercise and one in which AAB has recently invested heavily. This investment included the Gatwick depot which has only been open for six months. This is just one example of AAB's recent strategy to improve all aspects of its business, in terms of waste management and efficiency. 75 80

However, there continue to be problems with the distribution system which has led to some adverse national publicity during 2013 as some stores regularly ran out of stock of key items. This was particularly embarrassing for a company which usually carries well over £20 million worth of stock on its balance sheet. 85

One problem has come to the attention of Nick Fosten, AAB's Retail Stores (UK) Director: incomplete orders are being sent to many of the AAB outlets. In a conversation with Bruce Hayer, AAB's Logistics & IT Director, Nick said, "I've got at least half of my store managers complaining about receiving the new range of babygrows in only small and extra large sizes. That's no use to most customers and that is just one of many examples I could give you." 90

"All this new investment is taking some time to bed in", replied Bruce. "New systems and a new depot at the same time were never going to create the conditions for a seamless transition."

"That's all well and good," responded Nick, "but I seem to be living in a TV comedy sketch at the moment, as your staff just keep telling me that 'the computer says no!'" 95

"You have got to remember all the waste management and efficiency improvements which are taking place at the moment," answered Bruce. "The new systems have already reduced the turnaround time in the depot from four weeks to six days; we are now able to forward book space on cargo ships up to a year in advance; and we have reduced the number of cargo firms from 12 to six. However, we still use close to 100 different suppliers across the Far East and the number of outlets and distribution centres we supply around the world seems to grow by the day." 100

Another feature of AAB which is quite complicated is its organisational structure. In fact, AAB is made up of three interlinked companies. All About the Baby Ltd is the non-trading parent company. All About the Baby (Product) Ltd employs over 350 people, including the designers, customer service and personnel, finance and administrative staff at AAB's headquarters. All About the Baby (Retail) Ltd employs over 1,100 people. These are mainly in its UK retail stores, as well as in its national and international marketing team and the distribution staff at Gatwick. In addition to the two owners, Javier and Elizabeth, there are ten other directors with wide-ranging responsibilities across the three companies (**see Appendices 1, 2 & 3**). Five of these ten directors are also family members. 105 110

Staying privately owned has allowed AAB to remain a family business. Gemma, Louise and Val are Javier and Elizabeth's daughters and have been part of the business from a very early age. They attended trade exhibitions as children and joined the company straight from university. Eventually, they will take over the ownership of the business. Its continued expansion and success has placed a strain on the organisational structures. A management consultant has been recently contracted to advise on the suitability of the current structures as part of a review of efficiency across the whole business. 115

The pace of growth at AAB has been controlled by Javier and Elizabeth and they have tried to ensure that it has not had a detrimental effect on the workings of the business. Because of this, 120

each stage of AAB's growth has been financed organically, without any external equity funding. Javier is of the opinion that keeping the growth at a steady pace has helped AAB to react quickly to external factors. "We've always seen opening stores as a very big step. We opened one, then a year later we opened another one, then after a couple of years we opened three or four more. As we made mistakes along the way, that's how we learnt." 125

AAB's adaptability has given it a competitive advantage on the high street, emerging from the latest recession in a much stronger position than most of its competitors. Javier admits that things have been tough and margins continue to be affected by the rising costs of raw materials. The product ranges have been adjusted accordingly to recognise that most customers are still trying to keep their expenditure under control. AAB has accommodated this by producing more non-premium products but without reducing the high quality standards for which the brand is known. 130

Staying a privately owned family business is a key factor for Javier and Elizabeth. There are no circumstances that they can imagine which would lead to this changing. However, even as a privately owned business, especially one as large as AAB, the financial accounting requirements are significant and costly. A full set of audited final accounts must be provided to Companies House. These are then available, for a small charge, for anyone to see. The latest set of accounts (see Figs. 1 & 2) has just been signed off by the auditors. Although the headline details about AAB's financial loss have become public knowledge already, Javier is hoping that the full details of the accounts will set the minds at rest of some of the firm's key stakeholders. 135

#### AAB Consolidated Profit & Loss Account (year ended 30 August 2013)

	2013		2012	
	£000s	£000s	£000s	£000s
Turnover	141,588		131,935	
Cost of sales	<u>86,503</u>		<u>76,755</u>	
<b>Gross Profit</b>		<b>55,085</b>		<b>55,180</b>
Expenses	<u>55,804</u>		<u>49,035</u>	
<b>Operating Profit</b>		<b>-719</b>		<b>6,145</b>
Interest	<u>705</u>		<u>665</u>	
<b>Profit before tax</b>		<b>-1,424</b>		<b>5,480</b>

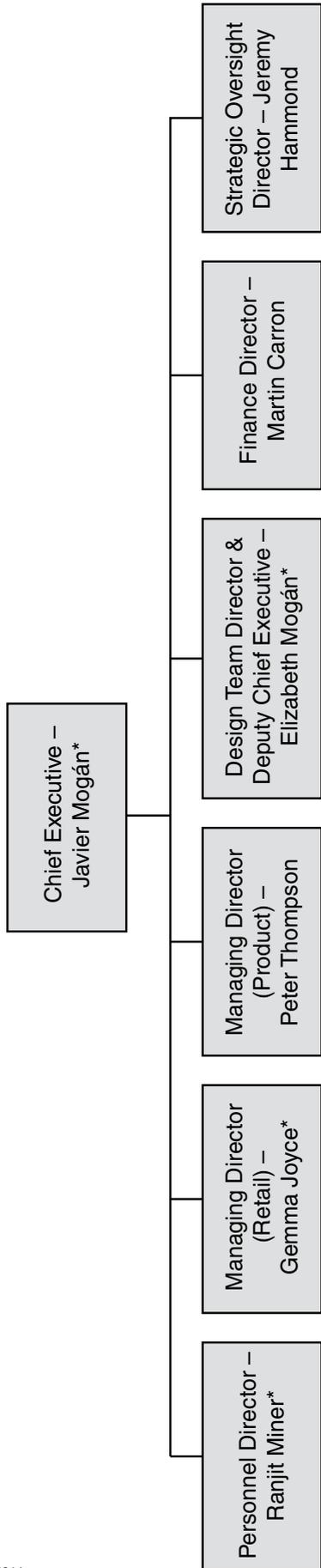
Fig. 1

## AAB Consolidated Balance Sheet (as at 30 August 2013)

	2013		2012	
	£000s	£000s	£000s	£000s
<b>Fixed Assets</b>				
Intangible assets	4,252		4,470	
Tangible assets	<u>40,147</u>		<u>40,890</u>	
<b>Total Fixed Assets</b>		44,399		45,360
<b>Current Assets</b>				
Stock	28,151		23,452	
Debtors	9,750		8,063	
Cash	<u>3,866</u>		<u>3,078</u>	
<b>Total Current Assets</b>		41,767		34,593
<b>Creditors due within 12 months</b>		<u>31,556</u>		<u>28,881</u>
<b>Net Current Assets</b>		10,211		5,712
<b>Creditors due after 12 months</b>		<u>24,399</u>		<u>19,875</u>
<b>Net Assets Employed</b>		<u>30,211</u>		<u>31,197</u>

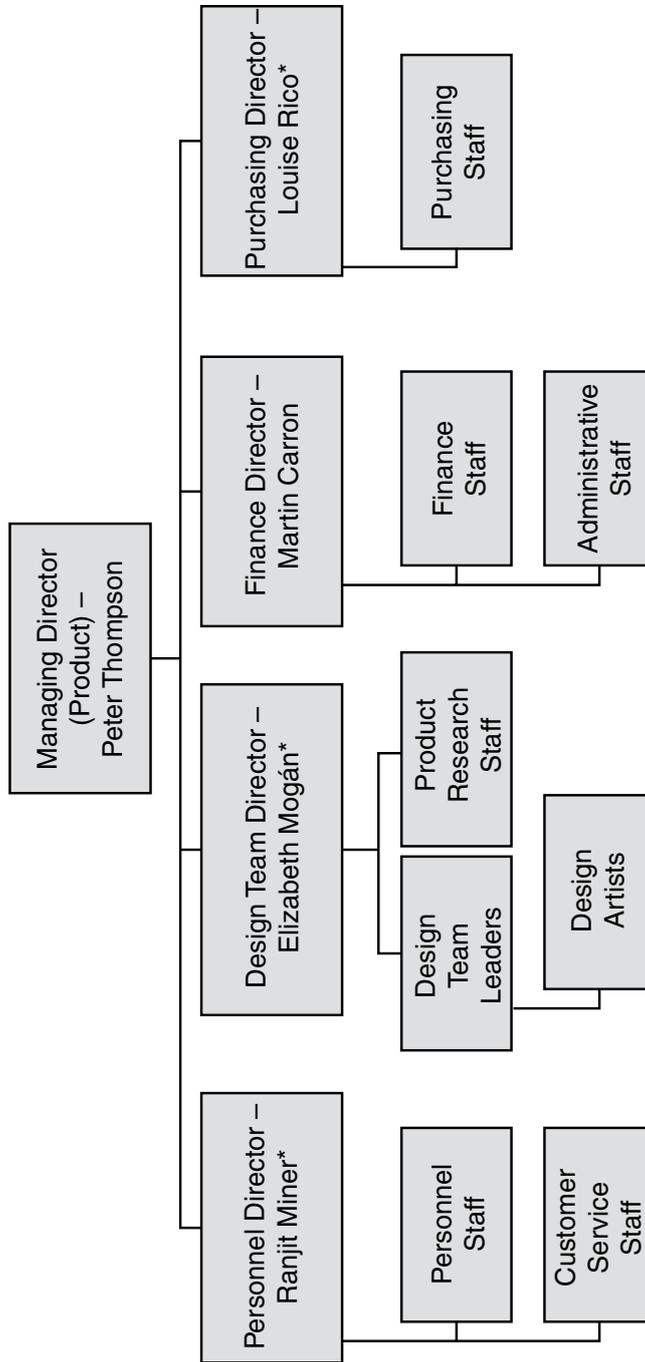
Fig. 2

**Appendix 1 – AAB Ltd's organisational structure (the parent company)**



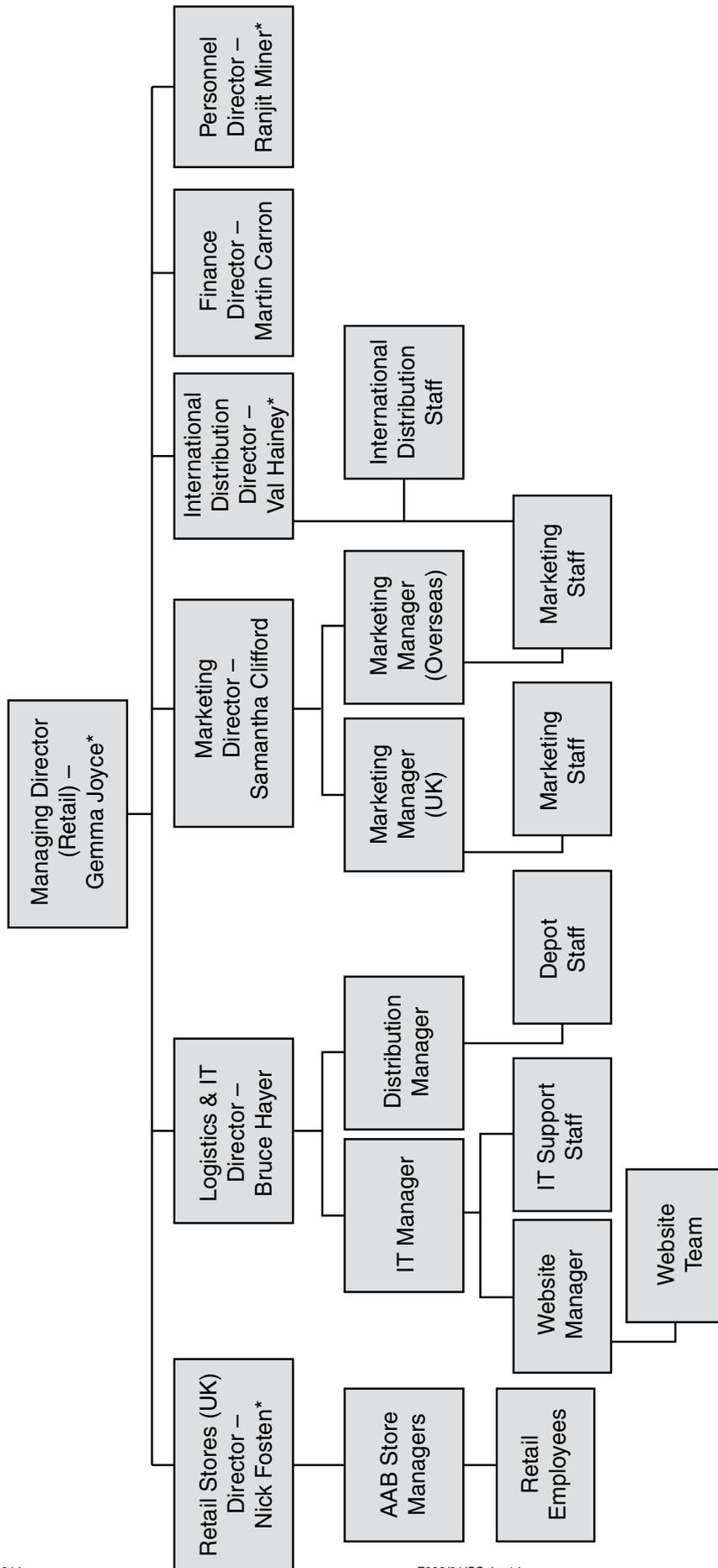
\* Family members

Appendix 2 – AAB (Product) Ltd's organisational structure



\* Family members

Appendix 3 – AAB (Retail) Ltd's organisational structure



\* Family members



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