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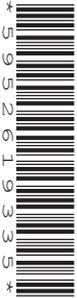
Tuesday 24 May 2016 – Afternoon

AS GCE BUSINESS STUDIES

F292/01/CS Business Functions

CASE STUDY

Duration: 2 hours



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Symponi Bears Ltd (SBL)

Symponi Bears Ltd (SBL) was founded by Caroline and George Curry, originally as an importer of handmade teddy bears. The couple had been regular visitors to local ‘Collectable Toy & Hobby’ shows for a number of years and were both keen collectors of teddy bears. However, they identified a niche in the market for good quality, affordable collectors’ bears. Thanks to a Small Firms Loan Guarantee from the UK government, SBL was founded in late 2007. In a recent interview for a local newspaper, Caroline was asked about how the business started. 5

“There were plenty of poor quality products at the bottom end of the market, but they were not the sort of teddy bear customers could fall in love with. At the other end of the market, there were lots of very nice bears, but at a price that most casual buyers would not wish to pay.”

Caroline and George are SBL’s only shareholders and joint Managing Directors (something which has not changed since 2007). Finding a manufacturer capable of producing quality products at the right price proved to be a difficult challenge. The attention to detail which Caroline and George were looking for significantly added to costs. However, many potential suppliers in the Far East were too focused on mass production and low prices. Eventually, a deal was struck with a small supplier in South Korea and SBL began its meteoric rise to fame. At the very first industry trade fair SBL attended in London, it received orders for over £25 000 of stock from small independent retailers. 10 15

In its first full year of business in 2008, SBL’s revenue was £145 000. During the economic downturn in the UK, SBL managed to keep growing, with annual revenue reaching £1m in 2010, £2m in 2012 and exceeding £8m in the latest set of accounting figures (for the financial year up to June 2015). SBL now has over 500 stockists in 39 different countries and is currently seeing significant growth in Japan and the Middle East, where there is a strong demand for western brands. Looking back at this impressive growth rate, Caroline was quoted in the newspaper article as saying, “This growth was all the more remarkable given the global recession.” 20

Every one of SBL’s bears is handmade to ensure that each has an individual character. This includes the cutting of the materials from a template, the sewing together of the pieces and the stuffing of the bears. This degree of detail requires a great deal of time: it can take many hours just to get the facial features of the bear looking correct. This high degree of quality can only be achieved with very careful attention to detail by skilled workers. To maintain the unique nature of each bear, the average production of any one design is about 3500. However, in some cases, fewer than 500 units of a particular design of bear are made. Retail prices range from £20 to £140. 25 30

During the past year, SBL has been faced with something of a production crisis. SBL only has a basic production contract, with no management control, with its supplier in South Korea. The quality of some of the bears being produced has been below the levels required, leading to a growing number of customer complaints and returned products. There have been occasions when a whole shipment of certain designs of bear has been returned by SBL to its supplier, before the bears were dispatched to its stockists. Other problems have included the late arrival of products from South Korea, wrongly labelled bears and even the wrong designs being produced. (All bears produced in South Korea are first delivered to SBL’s UK headquarters before being dispatched to stockists around the world.) 35 40

These problems have all led to significant issues with stock control, leading in some cases to angry stockists waiting for stock (as well as the end customer waiting up to 12 months) and, at other times, SBL having to hire additional space to store excess stock. To help to quantify the problem, George has begun to construct some stock level charts (**see Fig.1**). He intends to produce charts for the last 12 months for as many designs as possible, to see whether he can identify an ‘ideal’ stock control pattern. 45

**Stock data for some of SBL's designs
(as held at UK headquarters at start of each month 2014–15)**

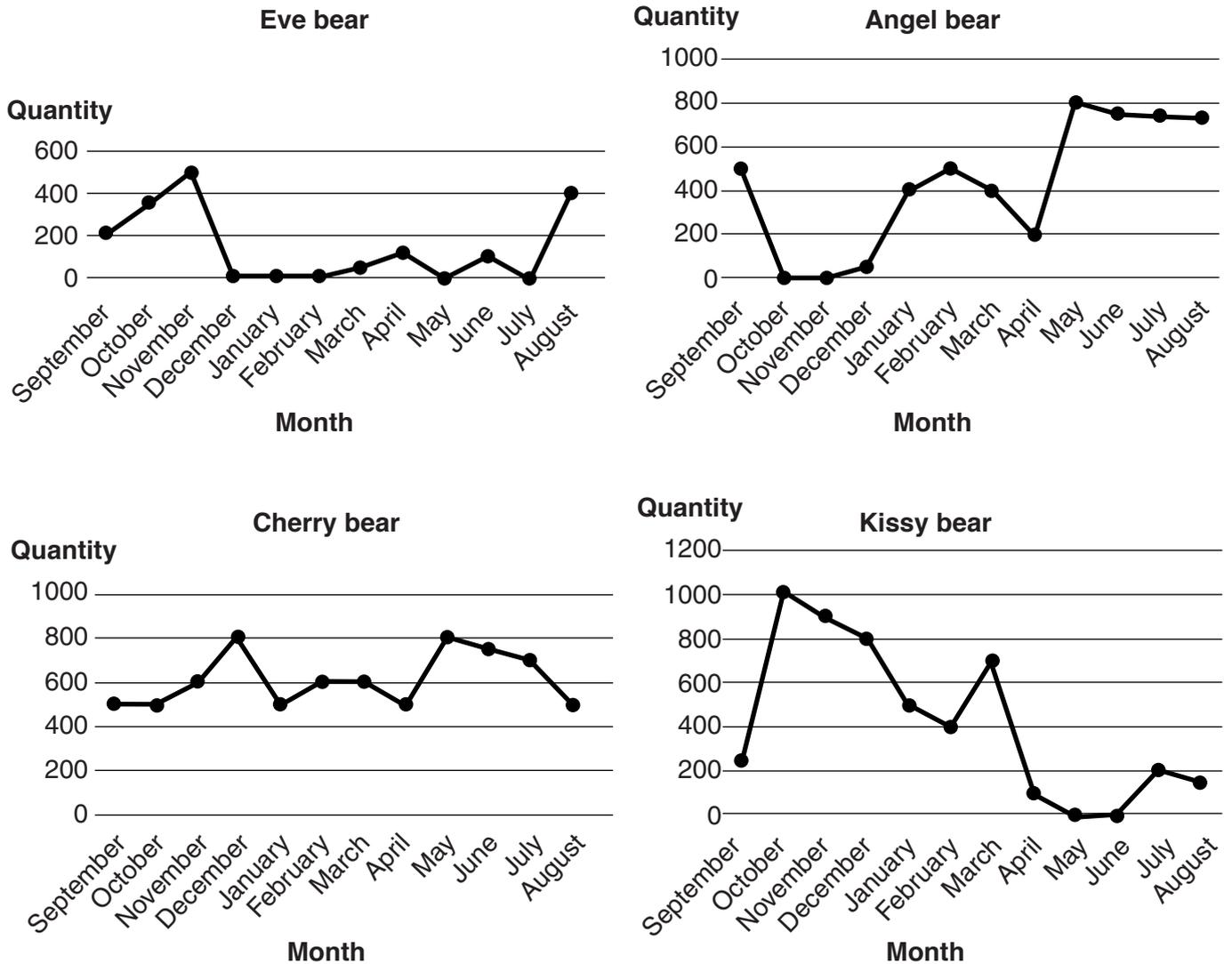


Fig.1

These recent problems with the overseas manufacturer partly justified George's decision to start a relatively small manufacturing operation in the UK which opened in the spring of 2014. The factory in Bristol (which now also serves as SBL's UK headquarters) only manufactures the most exclusive designs of bear, with no more than 200 of each bear being made. Many of the production staff have a background in hairdressing or art and design, as they were found to have the necessary artistic skills and attention to detail. Most of them are young. Job production is used, with each worker making a particular bear from start to finish. This allows the worker to give a bear a particular unique character and, most of the time, one worker will end up producing every single bear of a certain design. 50

Although the UK-produced bears sell for a premium price, because of their exclusivity, George is concerned that what should be a hugely profitable product for SBL has a gross profit margin very similar to the less expensive bears. Although he has no intention of reversing his decision to open the Bristol factory, he does feel that the time has come to make some radical changes in how it operates, in order to reduce unit costs. 55

Caroline was never as enthusiastic as George about opening a UK production site. She did not see the business sense of bringing such a labour intensive process back to the UK with its high costs, even though plenty of other 'big names' from the UK high street have begun to do likewise. George, however, is of the opinion that the long-term benefits of the UK operation will outweigh the short-term problems. He even thinks that a time may come in the future when all of SBL's bears are manufactured in the UK (currently less than 5% of bears are produced in the UK). If that time ever came it would certainly help with another of SBL's current problems, namely cash-flow. George would be the first to admit that he has only ever done the bare minimum in terms of cash-flow forecasting; just enough to keep the bank happy. However, the recent production crisis has only made SBL's cash-flow worse. Also, the bank has raised some concerns about the latest balance sheet (**see Appendix 1**).

Since the start of 2015, SBL has been using a UK-based management consultancy which provides small and medium-sized businesses with a dedicated consultant to provide expert advice on tactical planning issues, as well as helping to create a long-term business plan. Their consultant, Kathy Wu, has spent six months really getting to know the inner workings of the business, and what Caroline and George want to achieve in the future. SBL has now received Kathy's detailed report. The report makes three key recommendations which should be the focus for development over the next one to two years:

1. improve the detail and accuracy of the cash-flow forecasts on a monthly and annual basis
2. increase the channels of distribution both domestically and internationally
3. increase the range of motivational methods available for all of the UK-based employees.

Caroline is particularly interested in the recommendation to increase the channels of distribution, as it is something she has already been considering.

SBL's presence at industry trade fairs around the world continues to be a significant way in which it increases the number of stockists of its products. In addition, since the first year of its operation, SBL has had a major presence on the most popular television shopping channel in the UK. This involves an hour-long show, repeated a number of times over the space of a few days, where the channel's presenters display a range of the bears produced by SBL. Viewers of the programme are then able to purchase the bears by either telephoning the shopping channel's sales department or ordering online from the shopping channel's very plain and functional website. The orders are fulfilled by SBL itself, with the shopping channel receiving an agreed percentage of the price.

The very first appearance by SBL's bears on the channel led to a complete sell out. Currently, SBL has a regular monthly show on the leading shopping channels in over 20 countries. This figure could be higher, but due to the recent production crises, SBL has had to turn down the advances of other shopping channels, both in the UK and mainland Europe. A consequence of each monthly show is that SBL's stockists are inundated with enquiries about the bears and, more often than not, this leads to them running out of stock.

There is also a very strong secondary market in SBL's bears on the Internet and SBL has always had a strategy of encouraging the serious collectors to build up a complete collection of all of SBL's bears. The secondary market, where private individuals offer for sale their unwanted bears, in some cases for prices ten times higher than they were originally sold for, is the main way in which collectors are able to obtain those designs of bear which have been discontinued by SBL. On occasions, the secondary market has also been used by SBL to sell, at inflated prices, stocks of bears which it has held back after a design has been discontinued. However, this is as close as SBL gets to direct selling as, although it has a high quality website with a very modern design which is fun and interactive, it is not used to sell bears directly to the public. Caroline now wants to use the website to expand SBL's channels of distribution and will be looking to have her proposal agreed at the next management meeting.

Caroline sees the introduction of direct selling as a logical step given the worldwide growth in online selling. SBL already has a significant online presence as, in addition to bears being sold on secondary markets, SBL has its own Facebook page and many of the most popular bears have their own Twitter accounts. Stockists are kept informed about new products and trade fairs by using social media and SBL is currently having an 'Android app' tested so that collectors can track down a particular design of bear to any retailer or online market in the world. 110

Anthony Beard, SBL's Human Resources Manager, has already been sounded out by Caroline about the online selling proposal and he is somewhat concerned about the impact this may have on the problems he is currently facing with SBL's employees. Anthony only joined the business in June 2015, having previously worked for the UK's largest book wholesaler for more than 13 years. He becomes the fourth senior manager in the business, all of them directly responsible to Caroline and George. Anthony knows that he has only been appointed because Caroline and George realised that they do not have the time or expertise to look after the human resources part of SBL's production operation. 115 120

Anthony has spent his first three months in the business getting to know the UK part of SBL's operation as, apart from showing him where his office was, nobody in the business thought to arrange a proper induction programme for him. He, therefore, put together his own programme to ensure that he had a good working knowledge of the strengths and weaknesses of the workforce. This has allowed Anthony to not only get to know the production employees but also to put into practice one of his tried and tested management principles of making sure that management is seen to take an interest in the day-to-day lives of the staff – what he refers to as 'Management By Walking About'. 125 130

Anthony is now reporting back to Caroline, George and the rest of the senior management team, what he has found out from his first three months in the business.

"I think the most significant thing I have discovered from formally and informally talking to the staff is that they feel that the management just does not pay any attention to them", began Anthony. "Many of them have been with the firm since the Bristol site was opened and they reckon that they have only seen somebody from senior management on the shop floor once or twice, never mind actually having spoken to them." 135

"But they are all very good at their job and know what they're doing," replied George. "Don't these creative sorts just want to be left alone to get on with the job? Surely, if they had a problem, they would let us know. I suppose we could always look at a small pay increase, although that's going to need improved productivity in return." 140

"You're missing the point," said Anthony. "It's not payment that's the issue here. They just feel isolated. There is not even a production manager! What I would suggest is putting the production workers into small teams with a supervisor or team leader appointed within each team. These team leaders would report to me weekly but have a good degree of empowerment to run their teams on a day-to-day basis, to allow the possibility of batch production through division of labour and job rotation as appropriate." 145

"I suppose that is going to cost money," argued George. "Once you give someone a title they seem to expect money and free time to go with it!"

"Well, maybe, but think of the potential benefits in terms of motivation, staff retention and recruitment my idea may lead to," replied Anthony. 150

"Okay," replied George more calmly. "Put a proposal together, fully costed mind you, and I may consider it. But, bear in mind that we may have to bring more of the production back to the UK. These problems with the suppliers in South Korea are only getting worse and we may have to significantly increase the size of the UK operation." 155

“That could make life interesting,” commented Caroline.

“What do you mean?” said Anthony.

“You don’t know how difficult it was to recruit staff when we set up the UK site last year,” replied Caroline. “We ended up having to bring in staff from abroad, especially from Eastern Europe and Russia.”

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Anthony left the meeting thinking he now had the ammunition necessary to get his plans approved for changing the way in which the workforce is organised.

Appendix 1

SBL Balance Sheet (as at 30 June)

	2015		2014	
	£	£	£	£
Fixed Assets				
Tangible Assets	<u>1 224 109</u>		<u>1 128 990</u>	
Total Fixed Assets		1 224 109		1 128 990
Current Assets				
Stock	692 900		491 443	
Debtors	1 552 814		1 396 438	
Cash	<u>46 106</u>		<u>148 804</u>	
Total Current Assets		2 291 820		2 036 685
Current Liabilities				
Trade Creditors	499 169		358 557	
Overdraft	<u>759 003</u>		<u>510 334</u>	
Total Current Liabilities		<u>1 258 172</u>		<u>868 891</u>
Net Current Assets		1 033 648		1 167 794
Long Term Liabilities		<u>496 600</u>		<u>471 600</u>
Net Assets Employed		<u>1 761 157</u>		<u>1 825 184</u>
Equity				
Share Capital		5 000		5 000
Profit and Loss Account		1 756 157		1 820 184
Equity Shareholders’ Funds		<u>1 761 157</u>		<u>1 825 184</u>

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