



ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES
Business Functions

F292/CS

CASE STUDY

Monday 17 May 2010
Afternoon

Duration: 2 hours



INSTRUCTIONS TO CANDIDATES

- This is a clean copy of the case study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may not take notes into the examination.
- The business described in this case study is entirely fictitious.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

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Stone Restoration & Conservation Ltd (SRCL)

SRCL was set up in 1968. It is a stonemasons serving London and the South East, with a reputation as one of the leading companies in the UK. It offers high quality stonemasonry projects, involving the design, production and installation of architectural stonework. SRCL's stonemasons are experts in the conservation, restoration, cleaning and maintenance of historic buildings and monuments, and also work as monumental stonemasons on bespoke projects. Recent large projects have included royal palaces, listed buildings and monuments in London, cathedrals, churches and historic country houses. The business has always competed on quality and not price. 5

SRCL has its headquarters in Hampshire and two smaller regional offices in Surrey and North London. It used to be part of a larger civil engineering business but was the subject of an agreed management buyout (MBO) five years ago. At that time, SRCL had a turnover of just under £5 million but was loss-making. Today, the firm's Managing Director, Joe Kring, owns 38% of the 60,000 £1 shares. SRCL's Chairman, Fred Emerald, has 13% and the remaining 49% is shared between the other six senior managers. Turnover for the year ending February 2010 was £8.3 million, with a small operating profit of £277,404 (see Table 1). In a typical year, SRCL will actually complete around 360 jobs with an average price of £23,000. However, it is not just large projects that are taken on. SRCL is just as happy to take a job for as little as £50 repairing someone's front step. Joe expects SRCL to reach its first objective of a £10 million turnover in the next year. In fact, he has already set another objective of £15 million turnover by 2015. 10 15

Table 1 – SRCL's Profit & Loss Account (year ending 28 February) 20

	2010 £	2009 £	
Turnover	8,310,106	7,289,567	
Cost of sales	<u>(7,222,094)</u>	<u>(6,351,678)</u>	
Gross profit	1,088,012	937,889	
Expenses	<u>(810,608)</u>	<u>(989,971)</u>	25
Operating profit	277,404	(52,082)	

Even though SRCL is a private limited company, Joe strongly believes that stakeholders, especially employees, suppliers and customers, have a right to know how well the company is doing. Two ways of achieving this is to provide all of its employees with a basic copy of the firm's accounts and place a summary of annual performance on the company website. It is annoying, therefore, that the auditors have yet to 'sign off' SRCL's 2010 balance sheet (see Table 2), due to queries about the figures for fixed assets and debtors. Joe is hoping to be able to publish the audited balance sheet before the end of May. 30

SRCL's objective of boosting turnover by over 50% in the next five years may, initially, appear optimistic. However, Joe wants to see SRCL get a larger share of the £4 billion spent every year on restoring and conserving the nation's famous, but crumbling, buildings and historic monuments. This will mean having to look for business beyond the south east location where, currently, the bulk of SRCL's business is located; although geographic diversification will bring many challenges. SRCL is also looking to attract more work in the high-value, new-build housing sector. For example, the multi-million pound homes of footballers and the super-rich now flocking to the UK. 35 40

Table 2 – SRCL’s Balance Sheet extracts (year ending 28 February)

	2010 (unaudited) £	2009 £	
Fixed assets	351,873	206,286	
Current assets			
Stocks	210,950	207,887	
Debtors	1,011,613	872,101	
Cash in hand	1,699	1,010	50
	<u>1,224,262</u>	<u>1,080,998</u>	
Current liabilities	(981,603)	(1,069,727)	
Net current assets	<u>242,659</u>	<u>11,271</u>	
Long-term liabilities	(551,004)	(25,210)	
Net assets	<u>43,528</u>	<u>192,347</u>	55

At its headquarters in Hampshire, SRCL’s stone production workshop is able to produce the highest standard of stonework from the most intricate carving to mass stone production for walls. The workshop has some of the most advanced production facilities in the industry. It has benefited from constant upgrading and investment with the installation of state of the art stone cutting, turning and handling equipment, enabling the stonemasons to produce very high quality stonemasonry. Most recently, the company spent nearly £200,000 last summer on a computerised saw which can quickly satisfy the requirements for technically demanding stone production, including complex classical designs and architectural features.

In contrast, specialist items of stone carving, ranging from gargoyles and wild beasts to ornate Corinthian shields, are hand-produced by SRCL’s highly skilled stonemasons in the workshop. These specialist items are then transported to the venue by contractors to be fixed into place by SRCL’s on-site workers. However, it is often the case that the piece of work does not quite fit with the overall job and has to be returned to the workshop for further work by the stonemason. In some cases, this can happen two or three times for the same piece, over a period of weeks.

As Joe pushes the business to meet increasingly demanding growth targets, his fellow senior managers are having to cope with new challenges. The one who is probably facing the biggest challenge is Clare Bennett, SRCL’s Technical Manager. Clare splits her time between the Hampshire workshop and various worksites. She is responsible for all the work which takes place in the workshop, as well as being the line manager for the workshop staff. She also has to liaise with the various site managers in order to ensure the output from the workshop meets the requirements of the different jobs. The two biggest problems facing Clare at the moment are increasing waste levels and rising labour turnover.

Since Clare joined the business five years ago, she has seen dramatic changes. The recent introduction of greater automation into some of the stonemason’s work has been generally positive, with productivity increasing by around 10% on the more mass-produced work. However, not all the staff are happy. Mike Harris has been with SRCL for 28 years, all of his working life, and feels that the recent changes are the beginning of the end for his skills. “I may not have the artistic ability to sculpt angels or demons, but I have always got a lot of satisfaction from working by hand on the simpler designs for things like fireplaces or staircases,” he said in a recent chat with Clare. “The fact is that most of this less bespoke work is now automated using the new equipment.”

“But in the long-term we have got to trim our costs,” replied Clare. “It costs £100,000 to train an apprentice over a three-year period and with four or five in training at any one time, it’s a big challenge keeping them busy and maintaining quality. Our apprentices’ wastage rates are much higher, whereas machines don’t make mistakes.”

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“Oh yes they do,” said Mike. “We actually get more waste from the machines. There are bags full of stone chips which I have to sweep up after every job. We could do with finding a use for these.”

“There’s more to waste than just some lumps of stone” argued Clare. “You have to remember that we cannot let the apprentices loose on some jobs in the early stages of their training. Our reputation has been built on the quality of our output. The machine does not need years of experience before it can successfully have a go at something.”

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“Well,” replied Mike. “I wouldn’t strictly agree with that comment. We are all coming to terms with using the new machine – it’s not as easy to use as the manufacturer said. Poor old Stan is having even bigger problems than I am. You know he has ‘issues’ with technology – his wife says he can’t even programme a DVD recorder. He’s not the only one I’ve heard mumbling that it might be time to move on to a different job. There are plenty of easier jobs available at the local supermarket!”

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What Mike did not know was that Clare and the other senior managers were already considering a related problem which would have a further impact on SRCL’s workforce planning.

SRCL currently employs 115 staff, more than 80 of these are skilled stonemasons, many of whom have come through the firm’s own internal apprenticeship scheme. Wages and salaries are the biggest cost, representing about 50% of the cost of sales. But, the plan for geographic diversification has led to the issue of how to staff this growth. The choice facing the senior managers is whether to increase SRCL’s highly skilled, but expensive, direct labour force or subcontract more work.

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However, recent increases in labour turnover (see Table 3) at SRCL have complicated this decision. Clare’s recent chat with Mike Harris has made her realise one reason for the rising labour turnover. She had already identified three other possible reasons:

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- the ageing workforce, which has seen a growing number of SRCL’s workers reaching retirement age (see Fig. 1);
- a lack of the necessary work ethic in many of the younger employees. Due to the relatively unpleasant physical and sometimes dangerous working conditions, low pay and strenuous effort needed, many employees leave after just a few years working in the industry;
- insufficient skill in the school leavers applying for apprenticeships, meaning that those taken on are not of a high enough standard and so unable to advance in the future.

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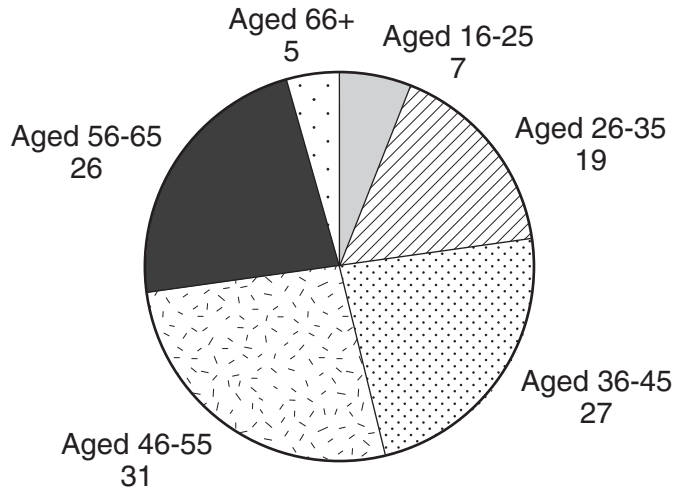
Table 3 – SRCL’s Labour Data

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	Average number of employees	Employees leaving during the year
2008-09	109	20
2007-08	93	9
2006-07	88	3
2005-06	81	4

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Fig. 1 SRCL's Workforce Age Profile – 2009–2010 (no. of employees by age)



Clare is all too aware that any further increase in labour turnover will have severe implications for SRCL, and not just related to its proposed expansion. She has already set up a series of meetings with the company's Training Co-ordinator to further investigate the impact on SRCL and how it may need to respond.

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Another senior manager who is playing an integral part in trying to achieve the growth objective is Milo Tobolowsky, SRCL's Marketing Manager. He is putting together a presentation for the next management meeting looking at how best to achieve the growth objective. The fundamental question is whether SRCL grows around the skills it already has and expands through acquisition or whether the business takes its skills into areas where it does not currently operate. Joe Kring has made it clear that he wants to investigate the latter option. At a recent meeting between himself and Milo, Joe commented, "We have seen a significant rise in very large, high-value residential properties. We are currently used as subcontractors to carry out the external façade work, but why can't we become the main contractor? We have all the project and site management skills. We could then subcontract out the jobs where we do not have the specialism, such as roofing and scaffolding."

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"To a certain extent, I agree," replied Milo. "However, we will need to look at our marketing mix."

"Well, surely it is the promotion which is going to be the most important?", said Joe. "We have an excellent website and a good list of regular customers for the restoration work. However, we will need to develop awareness in the house building industry that we are going to be a main contractor. But we are known in the industry to a certain extent and so it should not be too problematic."

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Milo was still hesitant in supporting Joe's view. "Our restoration customers are often large organisations or charities with big budgets to spend on the project. They don't have a huge choice when it comes to finding a business like ours to do the work. We don't exactly compete on price! Because of our high quality standards we tick all the boxes when it comes to winning contracts."

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SRCL, in fact, does have an impressive list of credentials when it comes to quality. It has won many industry awards for its projects; it is a member of the 'Stone Federation of Great Britain', and for each of the last four years has gained the prestigious 'President's Award' from RoSPA, which recognises outstanding performance in health and safety over a 10 year period.

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However, Milo feels he will have a hard time trying to rein in Joe's ambitions for SRCL. Milo knows he is not the only manager who privately feels that Joe is pushing the company too far, too quickly and that there are dangers involved in SRCL becoming too big. Milo appreciates that it will be imperative that he makes Joe see that there is more involved in any expansion than just playing around with promotion and that, maybe, this is not the most important component of the marketing mix for SRCL in the future.

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