



ADVANCED SUBSIDIARY GCE
BUSINESS STUDIES
Business Functions

F292/CS

CASE STUDY

SPECIMEN 2009

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.

Le Meridien Books (LMB)

Le Meridien Books (LMB) is unusual in the modern business world. Whereas the common trend is for firms to grow through diversification, to increase profits and power in the market, LMB is keen to stay small, putting customer service first. Jack Le Meridien, founder and sole owner of LMB, is happy to have only four stores in total, all in London. He is not keen on this number increasing in the next few years. He is wary of the business reaching the size at which business systems take over from passion and instinct in making decisions.

LMB is a traditional bookshop with all four stores located close to mainline train stations. LMB's largest store and headquarters is based near to Paddington station. The shop was an original Edwardian bookshop that still has long oak galleries and graceful skylights. It has regularly been said to be the most beautiful bookshop in London by its devoted customers. LMB has been in existence since 1981 when Jack Le Meridien embraced a lifestyle change by quitting a well-paid job in 'The City'. Today, Jack's business has an annual turnover of over £6 million and in his opinion is comfortably profitable.

One of the biggest differences between LMB and its competitors is the number of titles that it stocks. LMB's database of 45,000 titles is tiny when compared with over 460,000 at one of its competitors, Waterstones. Although the range is limited, Jack is happy with it. "There are far, far too many bad books in the industry. We concentrate on the quality end of the market and do not stock the rubbish! In any case, if a customer comes in for a book we do not stock we can usually get it for them in less than a week as the lead time on ordering can be as short as three days."

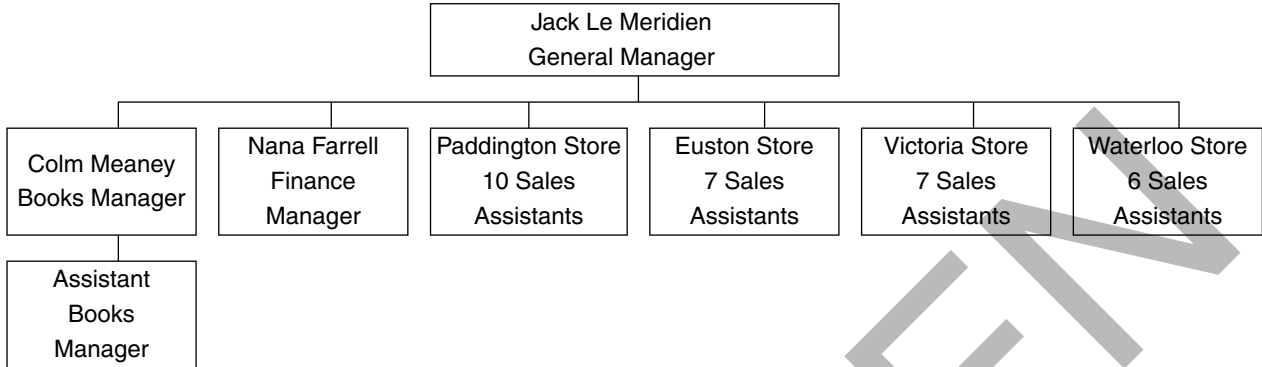
In fact, the issue of stock is one that is currently troubling LMB's Books' Manager, Colm Meaney. Due to the relatively small size of each of the shops, it is one of Colm's harder jobs to manage the stock levels of all 45,000 titles across the four shops. In all of the shops it is becoming a regular feature to find books stacked on the floor by the shelves because the shelves are full. Increasingly, books are also getting damaged because they are too tightly packed onto the shelves. This problem is made even more difficult by the huge variation in sales of different books. For example, a specialised travel book might only sell one copy per month, whereas a paperback fiction book may sell 100 copies or more a week.

Colm has decided to adopt a policy of only stocking one copy per store of the slower selling non-fiction books, with a simple system of ordering another copy only when the copy in stock has been sold. However, he is still uncertain how to proceed with the faster selling fiction books. Decisions need to be made about how many copies of each book should be kept in stock in each shop and whether it would be possible to reduce the 45,000 titles held. Colm has asked his assistant to produce a report with a collection of relevant data in readiness for a meeting with Jack next week, see Appendix 1.

LMB employs 30 sales assistants, all working full-time and paid an hourly rate. A majority of the staff have worked for LMB for over 10 years. In fact, the growth in the business to date has largely been driven by the staff, who are keen to work in a successful business. Jack has always been careful to employ the right type of person to work in his bookshops as part of his focus on customer service. He feels that regardless of whether a book sells for £10 or £50 it is best done by "a responsive member of staff who knows what they are talking about and is not wearing a Black Sabbath T-shirt with a spike through whatever." Jack has had to dismiss a number of employees in the past who have been unsuitable. This is something he has found to be unpleasant, but necessary.

Due to the steady growth in the business and the fact that employees are spread across four sites, Jack finds it increasingly difficult to keep in touch with every member of staff, see Figure 1.

Figure 1: Organisational Chart for LMB



Jack likes to think of his staff as friends as well as colleagues and feels it is important to talk with each of them at least once a month. He has a very 'hands-on' management style and is still involved in all decisions. However, he is aware of growing frustration amongst his staff about the increasing problems with communication.

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There have been a rising number of incidents in the past year when jobs have not been done or it has been discovered that two people are trying to complete the same task. For example, one of the sales assistants at the Euston store had been asked by Jack to assess the potential for introducing a 'children's area' in each of the bookshops. After four months of research and just before the employee was to report to Jack, she found out that a decision had already been made to go ahead with the idea after a brainstorming session with the sales assistants in the Paddington bookshop. It was discovered that Jack had forgotten he had asked anyone to look into the issue. On another occasion a planned book signing by a well known author had to be abandoned at the last minute as they realised that nobody had actually confirmed the event with the author – everyone had assumed that Jack had done it!

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An unusual feature for a business of LMB's size is that it does not have anyone with specific responsibility for marketing. Jack likes to think he is in charge of marketing, although since the business became established any marketing has usually been achieved through word-of-mouth. Occasionally a sales assistant in a particular store will have an idea for a promotional event which Jack will then ask that person to carry out to fruition. There is no attempt to have any business-wide marketing, with each store usually doing its own thing.

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High street bookselling has become dominated by three-for-two offers and half-price discounts since the collapse of the Net Book Agreement in 1997, which prevented retailers from discounting. This has been keenly avoided by LMB as Jack has always believed that a good book does not need to be priced cheaply to make a sale. However, the increasing market penetration by Internet sellers of books such as Amazon, as well as the supermarkets, has affected sales of books generally on the high street. The economies of scale of these sorts of retailers makes it impossible for LMB to compete with them on price. Jack is very proud of the fact that since LMB opened it has built up a cult-like following among London's middle class literary fans. There is also growing pressure from residents in other areas of London to have their own LMB shop, although Jack is not keen on such growth at the moment.

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“There were plenty of businesses similar to mine in the early 1980s; until they messed it up by becoming too large and mainstream,” says Jack. “Some of the names are still to be found in the larger towns and cities today, but they do not have the same loyalty from their customers. That is why I am not planning to open many more stores in the future.”

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“You won’t be opening any new stores in the future! In fact you will have your work cut out keeping the four you have got in a profitable state if last year’s figures are anything to go by,” was Nana Farrell’s response to this statement by Jack. Nana joined LMB three months ago as Finance Manager, a job up until then done by Jack. She is assessing the financial state of the business and turning her attention to the rather basic budgeting data that Jack has been working with, see Table 1.

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Table 1 – Budget Data for LMB- 2005

	January–June		July–December	
	Budget	Actual	Budget	Actual
Turnover	£3 500 000	£2 410 000	£4 500 000	£3 920 000
Employee Costs	£340 000	£350 000	£340 000	£375 000
Book Costs	£1 900 000	£1 430 000	£2 500 000	£2 750 000
Marketing Expenditure	£50 000	£140 000	£80 000	£190 000
Profit	£1 000 000	£251 000	£1 200 000	£144 000

Note: Not all costs are listed

“I really do not see how you have kept our bank happy with your financial reporting until now,” said Nana. “Your budgets are too simplistic, costing data is based on I don’t know what and cash flow forecasting is non-existent. No wonder you have little idea about how the business is *actually* doing. We have really got to formalise the accounts and start accounting for the successes and failures. For example, you need to spend more time asking why budgets are not being met.”

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Appendix 1: Excerpt from stock and operations data produced for
Colm Meaney's meeting with Jack Le Meridien

Sales, by value, per store (as a percentage of total LMB sales)

Paddington	33%
Euston	23%
Victoria	18%
Waterloo	26%

Sales, by value, by classification of book (as a percentage of sales in the store)

	Fiction – Paperback	Fiction – Hardback	Travel	Home & Hobby	Reference	Others
Paddington	43%	21%	18%	9%	3%	6%
Euston	38%	22%	10%	14%	8%	8%
Victoria	51%	21%	11%	4%	7%	6%
Waterloo	40%	25%	9%	8%	5%	13%

Old Stock – Books in stock for more than 6 months (as a percentage of total stock in shop)

	Fiction Books	Non-Fiction Books
Paddington	1%	21%
Euston	9%	12%
Victoria	6%	13%
Waterloo	15%	7%

Planned stock levels for Fiction books (per store)

	Fiction – Paperback	Fiction – Hardback
Maximum stock level	55	10
Minimum stock level	5	4
Assumed lead time	1 week	1 week

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