

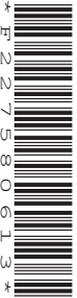
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**AS GCE BUSINESS STUDIES**

**F292/01/CS** Business Functions

**PRE-RELEASE CASE STUDY**

**JUNE 2013**



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## Moffett Steel & Designworks Ltd (MSDL)

Moffett Steel & Designworks Ltd (MSDL) has been in existence since 1983 and is due to celebrate 30 years in business later this year. However, current owners, Lewis and Tony Moffett are worried that it will be the last celebration the business enjoys. Started by their father, who was a blacksmith, MSDL is an engineering business which specialises in laser cutting intricate shapes from sheets of steel. These can range from bespoke cabinets and consoles to parts for companies which produce components for major manufacturers in the building and construction industry. 5

In 2012, MSDL's turnover was over £1.2 million but this was a fall of over 10% on 2011 and forecasts for 2013 are for an even larger fall. At the same time, MSDL's net profit margins are being squeezed; down to less than 7% compared to over 10% two years ago. This decline has been due to a combination of aggressive purchasing policies by customers and huge increases in raw material costs; iron ore and nickel prices have increased by 75% in the last 12 months, with more unpredictable fluctuations likely in the coming year. Steel accounts for a significant proportion of MSDL's costs and it buys 65 tonnes of steel per month. 10

MSDL has a close-knit group of customers, mostly within a 50-mile radius of the firm's location. However, business is gradually being lost to overseas competitors, mainly from France, Germany and the Far East. Much of this is due to higher productivity levels or lower labour costs abroad. MSDL does have a skilled and long-serving workforce of 28 full-time shopfloor employees. In addition to Lewis and Tony, there are four shopfloor supervisors and three administrative staff. As is typical in this industry, the shopfloor workers are all men, with the only woman employed by MSDL being one of the administrative staff. 15 20

Faced with a declining order book, Lewis and Tony have decided to devise new products and target an entirely new market. Between them, they carry out most of the normal management functions; Lewis is an accountant and Tony is an engineer. It is Tony who the staff think of as 'the boss' and he is the one who came up with the idea to use MSDL's expertise in designing steel-based products to produce high quality garden accessories, starting with garden planters and sculptures. The planters will be made in two styles, cubic and box column, manufactured using high-grade stainless steel in a brushed matt finish. In addition, there will be three steel sculpture designs available with an antique copper powder coating (**see Table 1**). If these are successful, more designs of both products can be produced and Tony also has plans for other products. 25

**Table 1 – MSDL's planned garden accessories**

Product	Size	Price (including VAT & delivery)
Cubic planter	250 mm	£248
	400 mm	£462
	500 mm	£616
Box column planter	250 × 250 × 500 mm	£320
	400 × 400 × 800 mm	£630
	500 × 500 × 1000 mm	£805
Heron sculpture		£610
Swan in flight sculpture		£763
Spherical sundial sculpture		£763

Lewis and Tony both agree that this is less of a diversification and more of a quantum leap into the unknown. The planned venture is also backed with only limited market research; most of it has been based on looking at similar products which are available on the Internet and in gardening magazines. Even setting prices has involved a lot of guesswork, based on the limited evidence from the market research. However, Lewis and Tony are working on about a 20% net profit margin, with prices set at a premium level to recognise the high levels of workmanship and materials involved. 30 35

“I think this is a really exciting project”, stated Tony. “It can help us regain some of the business lost over the last few years and maybe secure the future of the company.”

“We now need to sell our proposed changes to the staff”, replied Lewis. “You know a lot of them are rather set in their ways and resistant to change. Given the length of time some of them have been here, they won’t be happy with us trying to introduce new ideas. Many of them still go on about how things were more straightforward when Dad was in charge.” 40

“We’ve been in charge for nearly three years now”, argued Tony. “I may not run things like Dad did; he was far too friendly with the workers. But they need to understand that we are trying to turn this business around.” 45

The following day, Lewis and Tony held a meeting with the four shopfloor supervisors to tell them about the plans for the proposed changes to the product range. The meeting had already been in progress for over an hour and was not going well.

“These are brand new products that appear to have been plucked out of the air with no consultation, that you are now expecting us to start making with no training”, argued Matt Smith, the longest serving of the supervisors, who has been with MSDL for over 10 years. “I’m appalled that we’re only just hearing about this and it’s presented to us as a fait accompli.” 50

“What about more pay for all of the extra work that will be necessary initially, and some consideration of the impact of this on our colleagues?”, added John Simm, another of the supervisors. “There’s also going to be more work for us to supervise and problems to deal with.” 55

“Look, let’s get one thing straight,” replied Tony angrily. “Lewis and I are in charge, this is not a democracy and if you or any of your people don’t like it, then you know where the door is. There are plenty of unemployed skilled people locally who would jump at the chance of working here. Your ‘colleagues’ are paid well for what they do and can go home at the end of the day without worrying about their job or the business. All they have to do, and really all they want to do, is to turn up, do the job and take their pay cheque at the end of the month. In my opinion, the sort of staff we have don’t want anything else. You lot don’t seem to understand that if these new products aren’t successful, then you’ll all be out of a job. MSDL, as you know it, will not exist by the end of the year if things don’t drastically improve.” 60

In response to this outburst, the four supervisors prepared to leave. As they were doing so, Matt responded, “I can promise you that our colleagues are not going to take to your proposed changes, and the way they have been managed, kindly. We will be feeding back to them next week and will be recommending that they don’t accept them without suitable compensation and support. We will consider all options open to us, including industrial action.” 65

After the supervisors left, Lewis and Tony sat stunned for a few minutes. Eventually, Lewis spoke. “Do you think you were a bit terse with them? I think you may have opened a can of worms. You know how Matt can get when his back is up. He’s just going to cause trouble now.” 70

Tony considered this comment and then replied, “No, they just want more money. We can probably sweeten them up with a promise of a bonus if the proposed products sell. We could certainly afford to give them a bit more money if everything works out. Don’t worry brother, it will all work out in the end, they are just having a moan because we didn’t tell them our plans before today.” 75

“Actually, Tony, it’s you who needs to think about your leadership style”, retorted Lewis as he walked out of the room.

Later that week, Lewis was compiling the latest set of production data to put into the end of month report. It did not make pleasant reading, with the February net profit margin down to less than 5%, mainly caused by rising unit costs as turnover had fallen. Other production performance figures were also not encouraging (see Table 2). 80

**Table 2 – MSDL’s production performance data**

	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013
Reject rates (as a percentage of value of finished goods)	2%	3%	4%	12%	6%	8%
Waste levels (as a percentage of raw material costs)	10%	13%	13%	15%	18%	19%

Although he would not like to admit it to Tony, Lewis is concerned about the risks involved in going ahead with the new products without the support of the staff. Also, due to the three-month lead time when ordering the steel, which is imported from Eastern Europe, he is also worried about having to make such a financial commitment on raw materials and tools for products which have yet to be announced to any potential buyers. He appreciates that these are typical short-term risks for new products. Thanks to his study of economics at school, he is aware of the longer term benefits of increasing the size of the business. He is now trying to build into his long-term planning the likely impact on MSDL’s production data of the introduction of the new products. 85 90

Most of MSDL’s business over the years has been gained by word of mouth and a network of contacts built up by Lewis and Tony’s father. None of the staff are out-and-out salesmen and most promotional work consists of printing a few leaflets and popping them in the post to potential or past business customers. The firm does advertise regularly in the appropriate trade journals and produces a basic catalogue and price list every six months. However, given the unique nature of much of its work to date, customers have generally approached MSDL as a result of a recommendation or business contact. 95

Tony was discussing these marketing issues with Bex Harper, one of MSDL’s administrative staff.

“Of course, you will need to do things differently when promoting the planters and sculptures”, began Bex. “For a start, your customers are going to be completely different. The firms that buy steel consoles for equipment from us are not going to be buying garden planters!” 100

“Obviously”, replied Tony. “Hopefully, the new website my wife has designed will attract some business.”

“But isn’t that only set up for payment in sterling and UK delivery?” said Bex. “Also, how are people going to know about us so that they look at the website? I don’t think that it will attract that much business unless we get known for producing consumer products. We aren’t exactly well known by the public. Why don’t we employ a sales expert?” 105

“I’m reluctant to employ a sales expert; that’s an overhead I would rather not carry at present”, answered Tony. “We’re not exactly flush with cash. What I want you to do is to start approaching local garden centres, office complexes and shopping centres to see if they would be interested in 110

our new products. Or what about building companies or property managers who want to spruce up their show houses? We could offer them a reasonable discount for bulk orders. You're a resourceful person, Bex, come up with some novel promotional ideas. We need to do this on the cheap, mind you. I want costs kept down and a low risk strategy, bearing in mind our financial position. But this needs to work, you know that!"

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"So let me get this right," said a rather exasperated Bex. "You want some brilliant new promotional ideas but without spending much money. And you want me to do this even though I know nothing about marketing and as well as all my other work!"

"Yes please," replied Tony. "You're a sweetie!"

After Tony had left, Bex started to consider the options open to her, other than resigning! She 120 actually quite liked the idea of a new challenge and thought that this might give her a way out of her otherwise mundane job of answering the phone and typing out invoices and work schedules.

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