

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**LEVEL 4 CERTIFICATE IN MANAGEMENT CONSULTING      10331**

**UNIT 4 BUSINESS ENVIRONMENT**

**WEDNESDAY 15 JUNE 2016**

**CASE STUDY**

**INSTRUCTIONS TO CANDIDATES**

You should read this Case Study thoroughly and carefully in advance of the examination. You will have 30 minutes reading time. The examinations will require you to refer to the content of the case study and your own knowledge.

## MMS Ltd

*Micro-Mechatronics Services Ltd (MMS Ltd)* is a small business situated within the congestion zone<sup>1</sup> of a large UK city. It provides electrical, mechanical, car body diagnostics and repair services to owners of private cars.

The business started out as a sole trader in early 2008. Levi, the owner of the business, recruited his father, Joshua, in 2009 to work alongside him. Both are Bulgarian immigrants who came to the UK in 2008 and 2009 respectively, to seek improved work and life opportunities.

In the 1990s Bulgaria, a former Soviet-style command economy, struggled to become a market economy. Chronic unemployment, hyperinflation and weak investment hampered Bulgaria's productivity and growth. Most businesses were small, employing between one and ten people. Employees worked long hours, for minimal wages, without formal contracts of employment. This backdrop of a stricken economy led enterprising individuals such as Levi to leave Bulgaria to seek opportunities elsewhere in the European Union (EU).

Levi entered the UK with an 'Immigration by Investment' business visa which required him to meet strict conditions and timescales for setting up and operating a business. In addition to providing proof of sufficient personal funds to live on until the business broke even, Levi had to produce a fully-costed business plan. Also, to maintain this visa status, Levi had to convince the UK Home Office that the business was making positive progress toward its profit goals. Following the fourth year of successful operation of the business, Levi would become eligible to apply for permanent residency in the UK.

Levi found it very difficult to start a new business in a new country. However, with determination and help from the resident Bulgarian community, Levi was able to get the business up and running. By the end of 2011, he had fully qualified as an auto electrician.

In 2012 Levi incorporated the business as a private limited company (*MMS Ltd*). At that point in time its premises, situated on an industrial estate, had a floor area of 450 square metres and the business owned the following assets:

- a paint spray booth and associated safety equipment
- two vehicle ramps
- welding equipment
- compressors
- mechanical and electrical hand and power tools
- a breakdown and recovery vehicle.

The rent for the premises was £2000 per month, and business rates were £200 per month.

Joshua, who received his skills training in Bulgaria, was responsible for providing the mechanical and car body repair services at *MMS Ltd*. Levi was responsible for the electrical diagnostic and repair services. There was mutual respect and trust between father and son and Joshua was happy to leave the operation and planning of the business to Levi.

One issue with business start-ups in general, and for *MMS Ltd* in particular, was the reluctance of banks to provide business loans, especially when the business had little evidence of a good credit history. Levi felt that this interrelationship between credit history and business start-up was particularly difficult for immigrants who were new to the country and, therefore, could not demonstrate sufficient credit history.

By the end of 2012 the business had incurred total losses of £36,000. In addition, following a visit by the Health and Safety Executive, *MMS Ltd* was required to reduce the level of isocyanates<sup>2</sup> released from its paint spray booth. Complying with this instruction would require additional capital expenditure. Levi decided to approach the bank in an attempt to secure a business loan. However, the bank manager refused the loan request and

suggested that Levi develop a new business plan to demonstrate that *MMS Ltd* could stabilise its position and become profitable before reapplying for a loan.

For *MMS Ltd's* main stakeholders, this was a very low point. Levi was disappointed at the refusal of the bank manager to support *MMS Ltd*. In addition, being forced to think through a business plan – particularly in terms of the needs of *MMS Ltd's* customers – led Levi to doubt the adequacy of his business skills and leadership. In addition to losing the money he had invested over the years, he was facing the possibility of having to lay off three of the five employees. More worrying was that a failed business would endanger his and Joshua's visa status.

Levi negotiated a fifty percent reduction in the floor area occupied by *MMS Ltd's* premises and, likewise, the monthly rent and rates. He also sold one of the two vehicle ramps to accommodate the business into the smaller premises. The most difficult part of *MMS Ltd's* new business plan was breaking the news of redundancies to the three employees, two of whom were Bulgarian nationals. Although Joshua did not openly resist this decision, he found it difficult as, of the two remaining staff (excluding himself and Levi), only one was a Bulgarian national. Joshua was also unhappy that, with the sale of one of the vehicle ramps, service provision in his traditional area of responsibility would be significantly reduced.

Along with these changes, Levi undertook a market survey among *MMS Ltd's* existing customers which revealed three significant facts.

Firstly, he found that when *MMS Ltd's* repair services were priced at £40 per hour, this attracted customers owning lower value cars, but did not attract clients owning expensive cars. Yet, when repair services were priced at £70 per hour, the customer base switched almost exclusively to clients owning expensive cars. So the market for repair services seemed to operate with a strong element of 'perceived quality' pricing.

Secondly, he discovered that there were 12 similar repair service providers in the locality each offering differentiated services at prices between £40 per hour and £70 per hour.

Thirdly, he observed that the significant increase in the number of cars needing computer-aided engine management diagnostics presented a real opportunity for *MMS Ltd*, to not only differentiate services but also to sustain a premium pricing strategy of between £70 per hour and £90 per hour.

By setting the price of *MMS Ltd's* repair services at £70 per hour the volume of clients with executive cars began to increase substantially by mid 2013. Such cars are usually of high value, with an engine capacity exceeding 2.0 litres.

By the end of 2014 *MMS Ltd* became profitable and had a turnover of £215,000. Based on this success Levi was able to secure a business loan, which he used to recruit three more employees and to move *MMS Ltd* back into larger premises on the same industrial site. The loan also helped to fund the purchase of a modern paint spray booth and new computer-aided engine management diagnostic equipment.

Levi is confident that, in the current financial year, the business will be even more successful than in 2014. He is hopeful that a recent tender, submitted to an NHS trust for the repair and diagnostic servicing of its fleet of ambulances, will be successful.

## Footnotes

<sup>1</sup>For the purpose of this case study a congestion zone is a designated network of roads, the use of which levies a charge on motorists.

<sup>2</sup>Isocyanates are volatile organic substances used in paints for car repairs. Exposure to isocyanates in spray booths has been linked to asthma, respiratory failure and chronic skin conditions in employees working in these premises. The Paints Directive 2004/42/EC imposes a statutory obligation on the UK to examine and test levels of isocyanates at 14 month intervals in all businesses that use the associated paints.

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