

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
ADVANCED SUBSIDIARY GCE
F292/CS
BUSINESS STUDIES

Business Functions
CASE STUDY

THURSDAY 20 JANUARY 2011: Afternoon
DURATION: 2 hours

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

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- 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.

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SWEET TREATS LTD (STL)

Sweet Treats Ltd (STL) was set up by Belinda Williams. She had been working part-time in shops and cafés when she decided that a new challenge was needed in her life. Having always been something of a chocoholic, she attended evening classes in chocolate making and cake decorating at her local college. She started making and selling wedding cakes in her spare time and built up a small core of customers in Shropshire and Staffordshire, mainly by advertising in local newspapers and by word of mouth. One customer, Ian, was so impressed by the cake Belinda made for his daughter's wedding that he asked if Belinda would make chocolates and cakes for him to sell in his shop in Shrewsbury. Before she started, Belinda called up other chocolate companies for advice and was introduced to a Belgian chocolatier who gave her some expert advice over the telephone. Ian was very supportive and was happy to allow Belinda to experiment with different methods and flavours.

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In 2003, Ian decided to retire and Belinda took over the lease on his building and opened a shop specialising in handmade chocolates, cakes and biscuits. All production was carried out in the back of the shop and Belinda quickly built up a strong customer base of both locals and tourists. She joined the 'Made in Shropshire' scheme which promotes Shropshire based, small scale producers, which meant that she could attend food and craft shows and farmers' markets. To join the scheme, Belinda had to make sure that 40% of her ingredients were locally sourced. In its first year of operation, STL had a turnover of £28,000 and after five years that had increased to over £500,000.

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By late 2009, STL had moved its production facilities into a large manufacturing unit in Meole Brace, on the outskirts of Shrewsbury. It employs between 30 and 40 employees in total, depending on the time of year. 35

This move was a reaction to its products gaining the attention of national retailers. During 2009, three of the large supermarket chains approached STL wanting to stock its products. Initially, Belinda said no, but the buyer from one of the supermarkets persevered, even waiving the fees which suppliers usually pay to get on the supermarket's shelves. Belinda eventually relented and now a range of STL's products (see Table 1) can be found on the shelves of the fifth largest supermarket retailer. 40

The final turnover figure for STL in 2010 is expected to be approaching £4 million. 45

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TABLE 1 – STL'S PRODUCTS SOLD BY THE FIFTH LARGEST SUPERMARKET CHAIN

	<u>Unit direct cost for STL</u> (per box)	<u>Price sold to supermarket</u> (per box)
Crumbly chocolate fudge (100g)	£0.90	£1.40
Squidgy toffee fudge (100g)	£0.90	£1.40
Butterscotch caramel fudge (100g)	£1.00	£1.60
Chewy caramels in chocolate (100g)	£1.10	£1.80
Chocolate covered candied fruits (150g)	£1.40	£2.00

NB: The supermarket typically sells the products to consumers with a mark-up of between 80% and 100%

The success of these products has now led to the biggest supermarket chain approaching Belinda again. It wants to place an order for 500,000 units of each of the three fudge flavours, to be delivered during the first six months of 2011. If STL achieves the production and sales targets set by the supermarket, it will then consider a larger order later in the year, for a greater range of STL's products. Belinda will need to make a decision before the end of January about whether or not to accept this order. Although STL has room for the extra production capacity required for this order, Belinda is concerned about the impact of accepting it on all functions of the business and is well aware of the publicised extra problems of trading with the leading supermarket chains.

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The products currently sold to the supermarket are just one part of STL's product portfolio. The boxed fudge and chocolate products are major cash generators, even more so if the new supermarket deal goes ahead, and have a growing potential to generate additional profits for STL.

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“What we really need is a clearer strategy for our product portfolio,” stated John Harkness, STL's Marketing Director. “Especially if we take on this huge new order, we need to have a clearer focus about what products we want to be making in the future. No disrespect Belinda, but your product range has developed in a random manner without any consideration for product life cycles or other traditional marketing techniques.”

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“Well, I've always made what my customers wanted and I felt able to produce,” replied Belinda.

“I always thought it important that we had a variety of products so that if one of them did not sell for a while, then others would. It’s all about spreading risk.” 90

“I agree, to a certain extent,” said John. “However, with the increased potential capacity we now have and the growing importance of the boxed fudge and chocolate products, we really need to assess the viability of all our product lines. Look at this analysis I have done of our products,” (see Appendix 1). 95

“What’s all this about cows and dogs?” asked Belinda. “I need to be convinced of the benefits of this sort of analysis before I agree to any changes.” 100

Half of STL’s employees work on producing hand-iced biscuits. These are a premium product which uses the finest 100% cocoa powder, free-range eggs, British butter, organic flour and golden syrup. These ingredients are mixed, chilled and then hand cut using STL’s own designs of special cutters. The biscuits are then baked in a bespoke baker’s oven and cooled on wire racks before being iced by hand and then packed into specially designed packaging and/or tins. Biscuits are baked daily in batches, and will stay fresh unopened for up to three months. Belinda has always insisted on using natural and naturally derived colours wherever possible (e.g. carotene, beetroot extract, red cabbage, paprika and caramelised sugar). Because the biscuits are handmade, there may be some variations in colour and design between products, although this is thought to add a unique charm. 105 110 115

Many of the workers making the hand-iced biscuits have been with STL for a number of years. One of these, Eve Myles, has filled the role of Production Director since the business moved to Meole Brace. Eve is currently concerned with the rising costs of production for hand-iced biscuits, mainly due to higher unit labour costs, and has recently been told by STL's accountant that the product is barely breaking even at present. Without some drastic action she is forecasting that the product range will move into a loss-making situation within the next six months. Eve is now meeting with Belinda and John to discuss possible solutions to this problem. This is the third such meeting in the last month and no real progress has yet to be made.

“As I have been saying for some time now, the traditional batch production methods don’t work in a modern factory like ours,” began Eve. “Just look at the way in which unit costs have dramatically fallen since we introduced the new automated line for the boxed chocolate and fudge products. They must have halved in the last 12 months and with the planned growth, that is going to improve even more. We have loads of room now to expand so we could put in a new line for the biscuits, or in the short-run I reckon we could produce the biscuits on the same line as the fudge and chocolate, with only a few minor issues.”

“Look,” replied Belinda, “I was convinced to automate the production of the boxed fudge and chocolate as it was a means to an end – that end being the growth of my business. Clearly, if we were going to sell to the big firms, we needed bigger and more efficient production methods. But, and it’s a big but, I don’t want to become just another mass producer of products like all the generic, faceless companies in the national market.”

“From a marketing point of view, I also have major concerns about moving away from the batch production methods,” added John.

“I thought you were on my side,” interrupted Eve. 160
“I’ve seen what you wrote about the hand-iced biscuits in your product analysis document. You can’t have your cake, or should that be biscuit, and eat it!”

This argument between Eve and John went on for 165
nearly an hour, with no real progress being made. Eventually, Belinda spoke up.

“This is MY company you two are currently arguing about. You are making it sound so impersonal. 170
Don’t forget the people involved here, especially MY workers and MY customers. We must be able to find a compromise solution.”

“Well in that case, YOU make a decision,” replied Eve angrily. “It’s over a month now since I first 175
raised this issue and we are still no nearer to making a decision. The problem is that whatever is decided is going to have a negative impact on some aspect of the business or its stakeholders.”

Belinda left this meeting in quite an upset manner. 180
She felt the business was growing very quickly and the atmosphere and ethos were changing significantly. She sometimes wished for the days, not that long ago, when it was just her and a couple of friends making biscuits and chocolates in her shop in Shrewsbury. What had also not helped 185
was receiving a report about her leadership style compiled from anonymous feedback from her workforce. This came about as a result of Belinda

being approached in March 2010 by her local Chamber of Commerce, inviting her to take part in a national survey on leadership in small businesses. Belinda agreed, and during the last six months all of STL's employees, including the managers, have completed written questionnaires, with a smaller sample being interviewed face-to-face. Belinda was also interviewed personally, an experience she described to her friends as 'like being questioned about a serious crime'.

Belinda has always regarded herself as a democratic leader and believes strongly in having an empowered workforce. She viewed her workers as wanting to have an input into the running of the business and she believed that they were not only working for STL because of the money. She was, therefore, shocked and surprised to discover the results of the research (see Table 2).

TABLE 2 – RESULTS FROM THE CHAMBER OF COMMERCE LEADERSHIP SURVEY

WORKERS' VIEW OF LEADERSHIP STYLE	STL	ALL SMALL BUSINESSES
Autocratic	39%	32%
Paternalistic	4%	18%
Democratic	10%	39%
Laissez-faire	47%	11%

Some of the anonymous comments about Belinda's leadership style which were quoted in the report included:

- she is never around when a decision needs making...not that you always get a decision in any case **210**
- you can come out of a meeting where you have managed to talk about any issue other than the one you went in to talk about **215**
- why can't she just make up her mind and keep to it?
- does she really need to check every box of products before it leaves the factory?
- she seems to be more concerned about the appearance of the reception area and having the right carpet colour than dealing with workers who do not take enough care in their work **220**
- this company is no longer Belinda's little chocolate shop! **225**

Belinda was beginning to think that maybe it was time to move permanently to her holiday home in Gran Canaria and let someone else run the business. She could probably get a good price for STL and retire on the proceeds. On the other hand, she thought, why should she let someone else get all the fame and glory in the future from her idea? Maybe it was time to change her attitude to the business now that it was growing significantly. **230**

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APPENDIX I – PRODUCT ANALYSIS FOR STL

The company produces a number of different products which can be classified into four categories.

I) BOXES OF CHOCOLATE AND FUDGE PRODUCTS

- **Originally produced for sale in the local market and at food and craft shows and farmers' markets.**
- **Now sold in many smaller specialist food shops around the country and one supermarket chain, with the potential for sales in other supermarket chains in the short to medium term. Also available via STL's website.**
- **Products were originally handmade but are now produced on a new and efficient production line in the Meole Brace factory.**
- **Product already holds a significant national market share (around 25%) of the speciality fudge/chocolate market, with much more potential for future growth in a fast growing market.**
- **A real group of 'Star' products in the growth phase of their product life cycle.**
- **Has every chance of securing the future prosperity of this company if managed carefully.**

2) HAND-ICED BISCUITS

- **Another one of the original products which was first produced in the shop in Shrewsbury, but now manufactured in a dedicated area of the Meole Brace factory.**
- **Still sold at food markets, but also in smaller specialist food and confectionary shops around the Midlands and Wales. Sales via the website have increased in the past two years.**
- **Market share is difficult to quantify but is significant.**
- **A stable market in the maturity phase, but production difficulties keep costs high and profit margins low. If these problems could be addressed then the product is a potential ‘Cash Cow’.**

3) OCCASION CAKES

- **Arguably the product which got the business first noticed. However, the product, for obvious reasons, is only sold to customers within a 50-mile radius of Shrewsbury.**
- **The hand-made, labour intensive nature, of the product is becoming less consistent with the current state of the business.**
- **Even in the local area, market share is estimated to be very low.**
- **Changing consumer trends and growing competition from larger retailers means that this product is clearly in the decline phase.**
- **Is this a ‘Dog’?**

4) THE ‘CHOCOLATE CLUB’

- **A relatively new product, set up during the recession in 2009.**
- **Production of handmade chocolates still takes place in the shop in Shrewsbury.**
- **Each month, a box of 32 chocolates is sent to club members by post using a similar model to book or wine clubs. Members can choose to keep the box of chocolates and pay £7.95 a month.**
- **Due to the timing of the introduction of this product, market share is still very small. However, there is a huge growth potential as the economy picks up. Also, there is currently a proposal to add this ‘product’ to the STL website.**



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