



**BUSINESS AND ORGANISATION
STANDARD LEVEL
PAPER 1**

Friday 3 November 2000 (afternoon)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

CASE STUDY

Hunter & Sons and Safeway Supermarkets

A recent article in a national newspaper, the Daily Chronicle, reported that the department store, 'Hunter & Sons', is in merger talks with the food store, 'Safeway Supermarkets'. The following is a summary of the article.

Hunter & Sons

Hunter & Sons, a privately owned limited company, has been in the department store business since 1968. It has 26 stores and is renowned for the quality and the value of its products; its high service standards and the excellence with which it selects, trains and supports its staff. However, two years ago Nathan Hunter the founder of the stores died and left the business to his two sons, who act as joint Chairmen. The two sons have little retail experience. They are keen on motor racing and devote most of their time to this activity. The business is operated on a daily basis by Tom Spielberg, the Chief Executive Officer. He is talented, but finds it difficult to get the Hunter brothers to agree on a long term strategy for the shops.

The business is traditional and most staff have worked for the store for over five years. Promotion is normally on the basis of time served and the business is organised along departmental lines. The organisational structure is tall and many staff have additional paid responsibilities. The department heads, who tend to be in their late forties or early fifties, have considerable power. They identify employees' training needs and carry out staff appraisals. Tom Spielberg would like to change this structure to make the business more flexible and responsive to change.

The clothes Hunter & Sons sell are targeted at the working professional, both male and female, and sold under the brand name 'Hunters'. Pricing is generally higher than competitors, reflecting product quality. Sales declined 22% over the last two years and fashion magazines have criticised their recent range of clothes as expensive, boring and unfashionable. Younger customers have deserted the shops in favour of more fashionable stores, and even core customers in the 35 to 45 age range have begun to look for alternatives.

Tom Spielberg reacted to these criticisms by planning a new chain of shops, owned by Hunter & Sons, but aimed specifically at the younger market segment, selling cheaper, fashionable clothing. His marketing team created the brand name 'Botticelli' for the stores, representing Italian style and beauty. The first new Botticelli store is set to open in January 2001. Tom is also keen to find partners to grow and compete in world markets and has suggested a merger with Safeway Supermarkets. The Hunter brothers are concerned that links with Safeway and the Botticelli stores will affect the superior brand image of Hunter & Sons. They would prefer to use the Hunter name to sponsor their motor racing team and update the firm's image this way. It is rumoured that Tom Spielberg, increasingly frustrated by the lack of support from the Hunter brothers, is thinking about leaving the company.

Safeway Supermarkets

35 Safeway Supermarkets, established in 1988, grew rapidly on the back of aggressive pricing and marketing. The store’s own brand products make up 60% of sales by value. Each store is run by a manager, who is given considerable independence. Most managers are recruited from competitors, tempted by high performance related bonuses. They are young: averaging 32 years old, and work to strict sales targets. Those who do not meet their targets are dismissed. The managers recruit their own staff, who are required to be flexible and work as a team. Staff turnover is relatively high. Team leaders run several departments and the organisation structure below team leaders is flat.

40 Safeway is facing increasing competition as the economy moves out of recession. Customers are looking for higher quality, good value branded products. In particular, Safeway has lost market share to INCA Brands. INCA Brands offers clothes, household items, food, computers and even small motorbikes. It has recently been acquired by a large US clothing retailer and is able to charge low prices because of economies of scale in purchasing. INCA’s recent advertising claims that prices in its stores will be cut by 5% over the next twelve months. 45 They are also heavily promoting their new Internet shopping service and home delivery.

Table I Hunter & Sons financial highlights 1998 – 2000

	1998	1999	2000
	\$m	\$m	\$m
sales revenue	788	754	706
cost of sales	244	258	266
overheads	368	356	364
fixed assets	1880	2200	2340
current assets	484	488	486
current liabilities	276	325	378
long term liabilities	288	483	548
shareholders funds	1800	1880	1900

Organisation Charts

Figure I A typical Hunter & Sons' Department Store

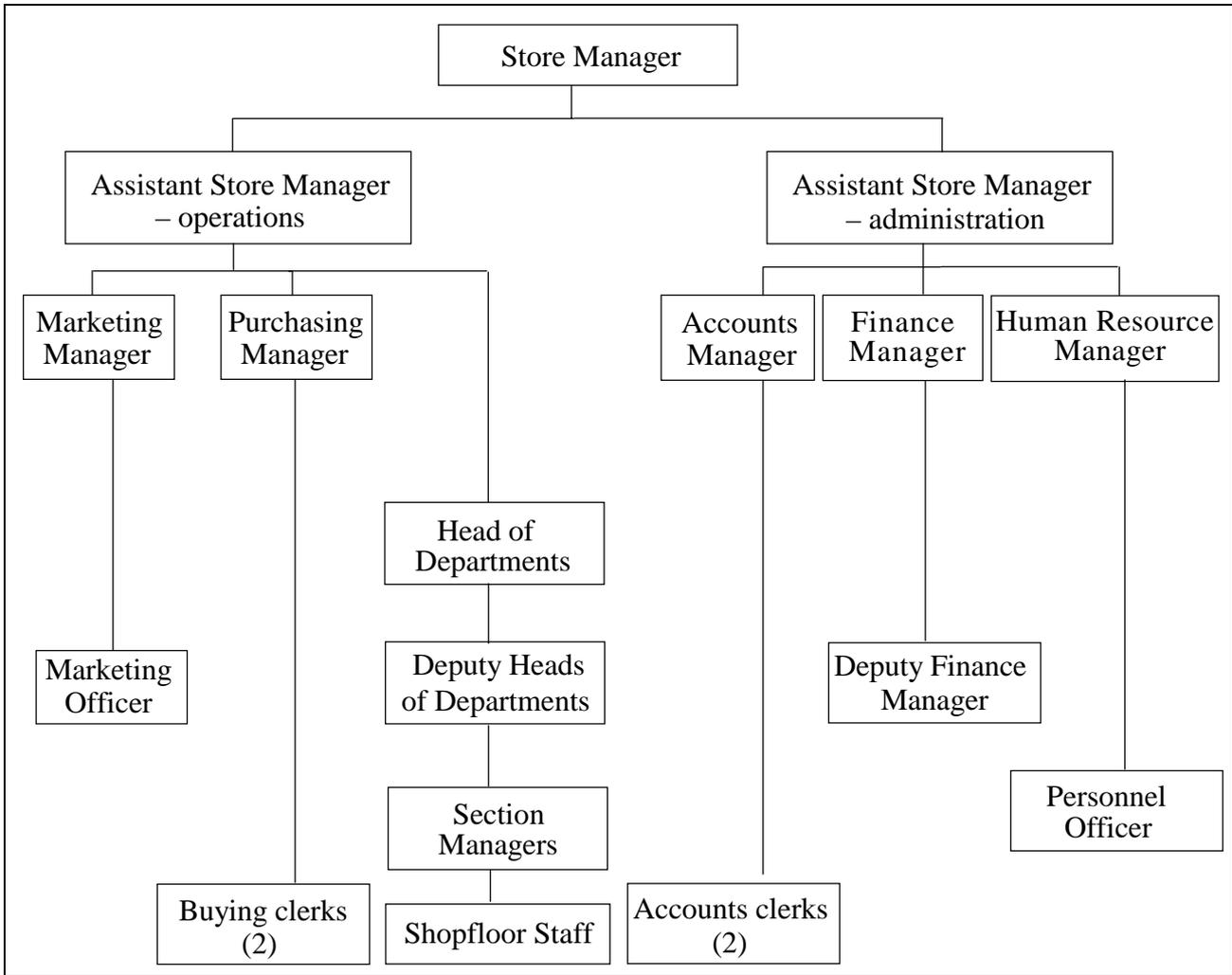
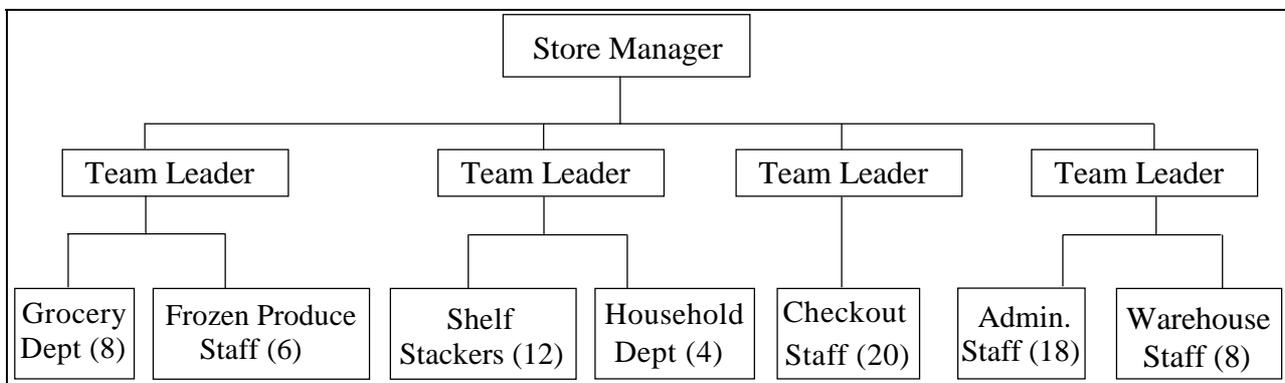


Figure II A typical Safeway Supermarket Store



1. Using the information in the text and from Figures I and II, compare the organisation structures of Hunter & Sons and Safeway Supermarket, and discuss how the different structures and management cultures will affect the operation and management of the two stores. *[8 marks]*

 2. Prepare Profit and Loss Accounts and Balance Sheets for Hunter & Sons for the years 1998 and 2000. *[8 marks]*

 3. Comment on the performance of Hunter & Sons over the three years 1998 to 2000 and its present financial position. Assess the profitability, liquidity and efficiency of Hunter & Sons over the three years 1998 to 2000, using appropriate ratios to support your analysis. *[8 marks]*

 4. (a) Explain **two** purposes of branding products. *[4 marks]*

(b) Why is Tom Spielberg planning to sell cheaper, more fashionable clothes under the Botticelli brand rather than use the existing Hunters brand name? *[2 marks]*

 5. (a) Produce a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for Hunter & Sons. *[8 marks]*

(b) Using your SWOT analysis, write a report from Tom Spielberg to the Hunter brothers analysing possible advantages and potential problems of the proposed merger with Safeway Supermarkets. The report must be in a format suitable for presentation to the board of directors. *[8 marks]*

 6. Examine the benefits and limitations for both customers and retailers of on-line Internet shopping. *[4 marks]*
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