

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

BUSINESS STUDIES

Business Behaviour

CASE STUDY

JANUARY 2002

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May be opened and given to candidates upon receipt.

INSTRUCTIONS TO CANDIDATES

This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

This case study consists of 3 printed pages and 1 blank page.

Lumsden plc

There is a superstore situated on the edge of Hampden, a medium-sized town in prosperous south-east England. The superstore is one of a group of 23 retail outlets stretching from Exeter to Ramsgate owned by Lumsden plc. The main competition for the Hampden superstore comes from a supermarket on a cramped site in the centre of town, and from a small number of more specialist shops throughout the town. Motorway links are generally good. There are occasional traffic problems. These occur particularly in the morning rush-hour periods and sometimes on Friday afternoons as tourists and business people travel to and from the coastal ports or the Channel Tunnel, given the approaching weekend. 5

The Head Office and central warehouse and distribution centre of Lumsden plc are located about 100 miles to the west of Hampden. The central warehouse supplies each retail outlet every weekday morning; there is also a delivery every Friday afternoon. Head Office exerts considerable control over the individual outlets. The sales department at Head Office determines the product lines which the group as a whole is to sell and also places upper and lower limits on the prices of products and the volumes delivered on each re-stocking occasion. Going outside these limits involves the outlet manager in a lengthy telephone debate with the sales director or his assistant, who are generally regarded as over-conscious of their own power and often obstructive. All the outlet managers feel that Head Office thinks it knows best and that there is too much bureaucracy and poor communication. The managing director is very conscious that retailing is highly competitive and that there is great pressure on prices and profit margins. He has felt it right that tight control should be exercised from the centre, although he has had so much negative comment at the quarterly meetings with all the outlet managers that he is beginning to wonder. 10 15 20

The Hampden superstore is open seven days a week. Daily turnover at the Hampden superstore is greatest on a Saturday. It is always a struggle to ensure that the selling area is fully stocked for opening at 9 a.m. on a Saturday morning. Deliveries are too often late on Fridays. Late Friday opening until 9 p.m. adds to the problems. There is pressure on the availability of staff in a strong economy and recently there have been some poor staff appointments. All these factors lead to some disgruntled Saturday morning customers. 25 30

An analysis about three years ago showed that throughout the group approximately 20 percent of the product lines generate about 75 percent of the sales revenue. Head Office automatically initiates re-stocking of these product lines. Responsibility for the remaining 80 percent is delegated to outlet managers like Brian, the manager of the Hampden superstore. He does his best to ensure that the product lines in this 80 percent are stocked properly. Unfortunately Brian, although he would never admit it, is not IT-competent nor is he particularly numerate. Stock selection and re-ordering are somewhat hit and miss. This is causing considerable frustration to his recently appointed deputy, Deborah, who has a degree in Statistics. Deborah feels that they often overstock in slow-selling product lines. Brian is aware that the retail outlets effectively compete with each other for deliveries from Head Office on a first-come first-served basis, so he tends to place orders for stock hastily and in generous quantities to avoid running out of stock. Deborah is concerned that this is costing too much. As an example of this she has drawn Figure 1 which shows a stock chart for kiwi fruits. She has decided to prepare a report for Head Office suggesting that outlets should be able to ask other outlets if they have surplus stock of any product lines. This stock could be re-distributed between outlets by small vans during the day. She feels that the savings involved in reducing stock levels and avoiding unsaleable product lines would outweigh the costs. 35 40 45 50

Recently she attended a graduate management training course at Head Office. She said to Tariq, the Group Management Accountant, 'We really ought to do some serious accounting research into the profit each product line makes. We have a rough idea what the fast-moving product lines might be, but that really is not good enough.'

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'The trouble is,' said Tariq, 'that it is very difficult to work out profitability on any product line sold. Think for a moment about all the costs of running your superstore at Hampden. Now consider a product, say baked beans. You have six different prices for the six different varieties you sell, and different buying-in costs for each. Therefore, you have to look at each brand. It really is impossible, although I quite agree we have to attempt to work it out in some appropriate way. Let me try to show you what the effect would be of a price cut on a particular product.' Tariq went on to give Deborah an example and said, 'A tin of Lumsden own-label baked beans retails at 18 pence and the buying-in cost to us ex-supplier is 12 pence. A recent sales campaign across the group was run when the price was cut to 12 pence and the sales doubled from 500 tins per day to 1000.' Tariq and Deborah spent some time doing various calculations, interpreting them, and considering their usefulness.

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Deborah has also been urging Brian to raise a number of issues with Head Office. These include paying more attention to marketing. She feels that they are not sufficiently aware of the target market for the Hampden superstore, and where the customers come from. In addition she believes that their site on the edge of town has plenty of space on which to develop. This gives them advantages they might not be exploiting. She wants Brian to request Head Office to investigate these issues but he is reluctant to do so.

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Brian and Deborah share concerns about staffing issues. Many of the full-time staff at the Hampden superstore insist on taking their lunch break between 12 p.m. and 1 p.m. During this very busy period, the superstore is being staffed by a small number of full-timers who have been pressured into joining a lunchtime rota. They are supported by a number of ineffective part-timers, whom Brian or Deborah have rejected as full-time staff, or who have had incomplete training. Local office and factory workers call in at the superstore during weekday lunchtimes to buy snacks or sometimes larger shopping. The Hampden superstore is in danger of losing these valuable lunchtime customers through inefficient service and long queues at tills. Two problems have been identified: the first is motivating the existing staff to reconsider their shift patterns; the second is recruiting staff, both full-time and part-time. Deborah also feels that Brian's recruitment and selection procedures, and attitude to staff training, could be improved.

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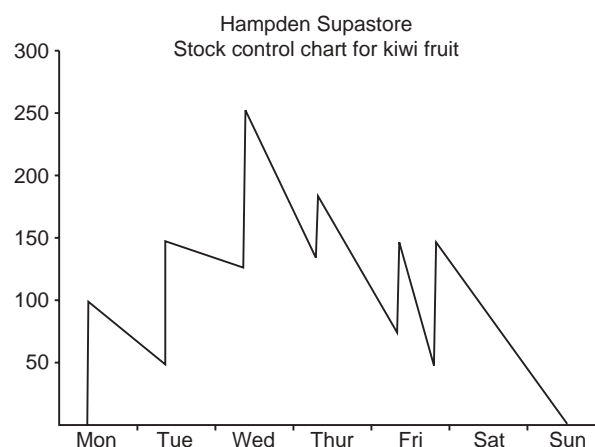


Fig. 1

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