

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**BUSINESS STUDIES**

Business Behaviour

CASE STUDY

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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.

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**This case study consists of 6 printed pages and 2 blank pages.**

## ELITE FLEXIBLE PLASTICS Ltd. (EFP)

Cyril Wood left school with no qualifications and spent six years as a building site labourer. Following night-school training, he joined the bottom of the management ladder, which eventually saw him rise to managing director of a road repair firm. It earned him enough to buy a controlling interest in EFP three years ago, a company making plastic materials mainly for wrapping and storage (see Table 1). After many years as a director, 61-year-old Cyril wants to prove he has the skill to run successfully his own company. He also wants to hand over the running of EFP to a young successor who comes from a similar background. As Executive Chairman, he leads a team of young directors with an average age of 30, each of them spending two months as acting Managing Director. Cyril feels that this is a wonderful way for them to learn and it will also help him to decide who should take over when he retires. 5 10

EFP's sales have been consistent at around £5m since 1997. However, profits had fallen from £600,000 in 1998 to £260,000 in 2001. They fell even further in 2002, though last year sales and profits began to rise. Sales of plastic storage sacks halved between 1997 and 2000. Demand for other products such as cellophane, polythene and shrink-stretch plastic film for pallet wrapping has tumbled from £2.6m in 1998 to just over £300,000 in 2003 (see Figure 1). Imports from low cost countries such as Turkey have meant that around 20 competitor firms in the UK have closed during the last five years. 15 20

EFP has increased its workforce from 36 to 45 over the past three years. This has been due in part to the changes in product focus. Plastic wrapping film that is printed with logos or instructions is now the biggest revenue earner. Plain and printed laminates for lids, sachets, sandwiches and ready meals is the biggest growth area. Forecast sales and direct costs for the current year can be found in Table 2. 25

At a recent board meeting, discussion took place about future pricing policy. Claire Hewitt, EFP's Marketing Director and current acting Managing Director, made the case for change. "Our customers are under pressure from supermarkets to cut costs, so they in turn are putting pressure on us to reduce our prices. If we don't, then we will undoubtedly lose business." 30

"The problem is we are working to very small profit margins on most of our products," replied Dave Barker, Finance Director for EFP. "We cannot reduce our prices without finding our own cost savings. When you remember that the raw materials we buy account for about 70% of our total costs, and suppliers have increased their prices by 5% over the last year, you can appreciate that we are caught in a classic price squeeze." 35

"But what about the £200,000 we spent last year on new equipment for handling the rolls of plastic film," asked Operations Director, Rowena Harrison. "According to my figures it has led to an increase in production efficiency of 18% over the last six months." 40

"You're quite right Rowena," said Dave. "However, this has only just been enough to compensate for cost increases elsewhere."

Claire had concluded the meeting by asking her fellow directors to produce individual reports for the following meeting about how different pricing strategies would affect their own functional areas. 45

In the Operations Department, Rowena Harrison regarded all this talk about pricing as an unnecessary distraction from her main priority at the moment. EFP has won an exclusive contract for UK supplies of a new type of eco-friendly plastic that will eventually replace PVC. She appreciates the fact that the new plastic is biodegradable and uses 45% less energy and only half as much raw materials to produce is certainly important to the marketing and sales people. However, Rowena is more concerned about how it will affect the production process. The material can be printed on and supplied either as trays or pots for packaging food. It will, however, require slight modifications to the production process and additional training for the workforce. Although the future for this new product is exciting, it is unclear when some technical difficulties will be overcome. It is also currently impossible to forecast demand levels beyond the initial contract. 50 55

The company's reject rates have historically been around 25%. EFP now has a target of reducing this to 5% within three years. Rowena and her team of supervisors carry out quality checks on the production line at random intervals. There are also regular checks made of the finished products. Rowena is sure that radical changes to this system will be necessary to achieve the new quality targets and is aware that the introduction of the new eco-friendly product will have further implications. 60 65

The beginning of February 2004 will see the next transition of acting Managing Director. Sachin Ganguly, EFP's Personnel Director, will take his turn running the company. After leaving a top university with a first class honours degree in Industrial Relations, he spent two and a half years working through the trainee management programme at a major high street retailer before getting the job at EFP. He is the youngest director in the company. 70

Sachin has voiced his concerns in private to Claire about the prospect of leading a team of older and more experienced directors. "I've only been with the company for six months and I am still getting to grips with running my own department. The thought of being responsible for steering the whole company over the next two months is daunting." 75

"Well I have thoroughly enjoyed my time in charge and will be sad to step down," replied Claire. "You knew what you were letting yourself in for when you took the job."

"Yes, I know," said Sachin, "but I assumed that I would be given a year or so to get my feet under the table before taking my turn. The other thing is that most of the directors do have some experience of other departments. For example, you have to deal with the Sales Department, the Operations Department and the Finance Department when making decisions to do with marketing. I don't have that same integrated involvement in my job." 80 85

Claire tried to be reassuring, "I am sure you will be fine. Nobody expects you to be perfect. Remember this is part of your training. I found all our colleagues to be sympathetic at the beginning and Cyril is excellent at providing help and guidance both in meetings and in private."

Sachin felt a little happier after his chat with Claire but still thought he should spend some time trying to find out more about the work of each department. 90

One area of the business that Sachin knew least about was finance and accounts. Although he was familiar with the basics of accounting practice, he still did not fully understand how the different components, such as balance sheet and profit and loss account, were related to each other. Dave Barker frequently talked at board meetings about how it was EFP's duty to provide information for different stakeholders to interpret. Having obtained an abbreviated version of the firm's latest accounts (see Tables 3 & 4), Sachin felt that a meeting with Dave would be a good way of starting his preparations for taking over as acting Managing Director. 95

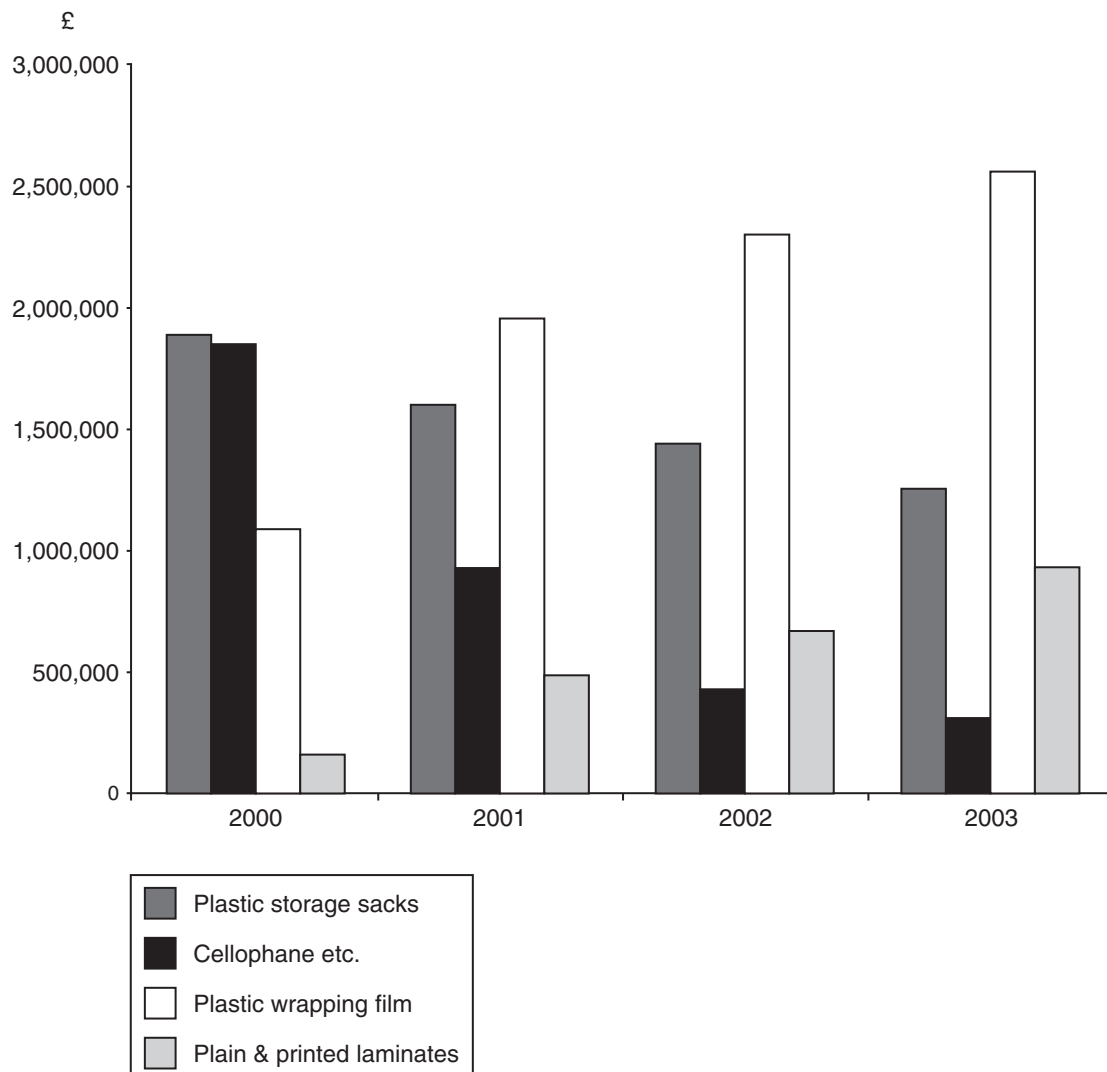
**Table 1**

EFP's Current Shareholders

Mr. Cyril Wood		700,000 shares
Mrs. Bernice Wood	(Cyril's wife)	100,000 shares
Mr. Robin Christopher	(Ex-Chairman)	200,000 shares

**Fig. 1**

Summary of EFP's sales revenue patterns



**Table 2**Forecast Sales & Direct Costs for year ending 30<sup>th</sup> September 2004 (£'000)

Products	Plastic storage sacks	Cellophane, polythene & shrink-stretch plastic film	Plastic wrapping film	Plain & printed laminates
Sales turnover	1,221	303	2,672	1,194
Raw material costs	741	141	2,132	646
Direct labour costs	295	49	579	259

**Table 3**

**Elite Flexible Plastics Ltd.**  
Balance Sheet, as at 30<sup>th</sup> September 2003

	2003 £000	2002 £000
Fixed assets	5,661	5,142
Stock	403	106
Debtors	1,109	731
Cash	<u>392</u>	<u>494</u>
Current assets	1,904	1,331
Current liabilities	871	688
Net current assets	<u>1,033</u>	<u>643</u>
Net assets	<u>6,694</u>	<u>5,785</u>
Share capital issued	1,000	1,000
Long term liabilities	1,750	944
Reserves	3,944	3,841
Capital employed	<u>6,694</u>	<u>5,785</u>

**Table 4**

**Elite Flexible Plastics Ltd.**  
Profit and Loss Account, year ending 30<sup>th</sup> September 2003

	2003 £000	2002 £000
Sales turnover	5,048	4,840
Cost of sales <sup>1</sup>	<u>4,311</u>	<u>4,220</u>
Gross profit	737	620
Expenses <sup>2</sup>	390	401
Interest	197	79
Taxation	<u>27</u>	<u>25</u>
Net profit after tax	<u>123</u>	<u>115</u>
Dividends	<u>20</u>	<u>19</u>
Retained profit	103	96

Notes to the accounts:

<sup>1</sup> Includes direct labour costs of £973,000 in 2003 and £969,000 in 2002

<sup>2</sup> Includes total directors' salaries of £220,000 in 2003 and £203,000 in 2002



