

**OCTOBER / NOVEMBER 2005**  
**Section A**

Ans1. Decentralized management structure is one in which the decision making authority is passed to managers in other areas, departments or divisions of the business. This structure would be very beneficial for the business because of the expansion it has undergone. Decentralization involves delegation of tasks to lower management such as purchasing, advertising, sales and etc. This would allow Bernie and his directors more time to concentrate on the strategic decisions such as corporate strategies and major growth plans and investment. It would take away pressure of handling departmental decisions too. Also decentralization serves as a great motivating force. It would empower lower, management. They would feel a greater part of the company, consider themselves instead and needed by the organization as in accordance to McGregor's Theory X. This would lead to a more democratic style of leadership where lower management would be better able to work towards their full potential and have a greater chance of self – actualization which is the highest level of motivation according to Maslow Need Hierarchy.

Not only this but since the operations of Mercardo plc have been extended to other countries where they sell their products, decentralization and delegation has another benefit. Managers who are present in different areas have greater local knowledge about the market conditions. Therefore, they would be better at taking decisions as to what products would sell and how to advertise them. In centralized management, the senior managers and directors may prefer standardised adverts and promotion and may end up ignoring the important factor of cultural differences which makes it possible for a single advert to be entertaining in one country and offending in another thus adversely affecting Mercardo's reputations.

Decentralization would also allow Mercardo plc's divisions in different countries to reach quickly to any changes in the market as quick response is essential for being successful in the competitive market. Since problems do not have to be referred to senior managers, decisions are more flexible in the light of unforeseen circumstances. Also for lower management in the different divisions, it would be easier to get detailed knowledge through market research. Also to continue to be successful Mercardo needs to groom and train its lower management so that they are prepared and experienced enough to take over senior positions once the senior managers decide to retire.

However, it must be remembered that decentralization is a gradual process for which Bernie has to prepare the central management to delegate more who may be reluctant. Also since lower management is used to autocracy therefore this change has to be introduced slowly to ensure the correct reactions and decisions for tasks delegated. Then decentralization may result in departmentalized or divisional decisions as managers at lower levels tend to concentrate only on their area while senior managers take decision from the point of view of a business as a whole. Therefore co-ordinating the different departments and divisions to maintain an integrated organisation may become difficult for Mercardo plc. Nevertheless, the advantages would most certainly prove more beneficial for the success of the expanding company increasing motivation and efficiency as well as competitiveness. Therefore decentralization of management structure should

Ans2. AVERAGE RATE OF RETURN

$$\begin{aligned}
 \text{i. } \frac{\text{OPTION A}}{\text{Profit}} &= 7.5m - 5.0m \\
 &= \frac{2.5m}{3} = \$0.83m (\text{Avg Profit}) \\
 \text{ARR} &= \frac{0.83}{5.0} \times 100 \\
 &= 16.7\%
 \end{aligned}$$

$$ARR = \frac{\text{Average Profit}}{\text{Initial Investment}}$$

$$\begin{aligned} \frac{\text{OPTION B Profit}}{\text{Profit}} &= 100m - 60m \\ &= \frac{40m}{3} = \$13.33m (\text{Avg Profit}) \\ ARR &= \frac{13.33}{60} \times 100 \\ &= 22.2\% \end{aligned}$$

ii. NET PRESENT VALUE

Years	Discount Factor	Option A Cashflow	Option A Present Value	Option B Cashflow	Option B Present Value
0	1	(5.0)	(5.0)	(60)	(60)
1	0.91	2.5	2.275	40	36.4
2	0.83	2.5	2.075	30	24.9
3	0.75	2.5	1.875	30	22.5

Ans2

(b) The average rate of return (or accounting rate of return) shows Mercado plc the net return of both options per year percentage of the initial investment. This easily shows the profitability of the options which in this case is better of Option B. Also if other information such as interest rates are available the Mercado could compare these values of ARR with that and see if it is worthwhile or fruitful to make an investment at all. The Net Present Value deals with interest rates and time factor and shows the true profits made by Mercado plc. as it shows the true discounted value of money in the future according to the prevalent interest rates in the country. this allows Mercado to decide if any of the options remain profitable into the future so that it could be decided whether or not to invest.

Locating its factory in my country, Pakistan, would have both its advantages and disadvantages for Mercado plc. My country is a developing country which has registered good economic growth in recent years because of which there is high demand for electrical goods. So locating in Pakistan would provide Mercado with a nearness to markets. This would mean lower costs of transport of the finished goods as goods are just delivered by road instead of having to export and ship it to the country. also Mercado would have better market information of my country by locating here as to the competition for washing machines and refrigerators. It would be able to conduct an effective market research, be able to determine the best price for its goods as well as the tastes as to design and facilities that are popular or are demanded by consumers. Also Mercado may come to be regarded as a local company because of the presence of its operations due to which it would gain customer loyalty and a strong market share as people may turn to products also when they require replacements of their old goods.

Then the Mercado would also have lower costs of developing country and having high unemployment rates the cost of labour or wage rate is very low in Pakistan and so Mercado would save on these expenses. Also the cost of land and rent of sties for locating a factory is cheap as compared to developed economies. So Mercado would make substantial savings on production and this would make its electrical goods more competitive in the global market as compared to the companies that produce in developed economies. So Mercado could export its goods from Pakistan at more competitive prices and increase sales and profits. Also the government of Pakistan offers several packages, subsidies and incentives to companies like Mercado to attract investments for industrialization which would again prove beneficial for Mercado.

Finally Mercardo could also get round any import duties imposed to obtain a more favourable trade balance. By producing within the country it avoids paying huge tariffs in order to sell in Pakistan and this could again be converted into its profits. There is diversification and risks are spread so if one operation in one country makes losses it could cover them up by profits from the other factory.

However, there are disadvantages as well and risks. The communication links with the main office may be poor which would lead to managerial problems. The language and cultural differences with workers and government officials may cause misunderstandings and inefficiency in production. Then once Mercardo locates in Pakistan, it would have to co-ordinate the production from this factory with others in the other country. In case of failure to do so, it may have duplicate products competing with each other in the global market that could lead to wastes. Then the observation of same policies in both countries would have to be planned and closely monitored. If low quality of goods are baked from any factory onto the international market, this could prove very damaging to the Mercardo's reputation and sales. Also the labour in Pakistan is mainly unskilled and Mercardo may have to spend huge sums on the training and development of the necessary skills in the workers. This would be a big cost. Finally a percentage of profits produced by the company would have to be given as tax to the government.

Despite the disadvantages, Mercardo should locate its factory in my country as the advantages are considerable and would have a very favourable impact upon the growth of Mercardo, solving of its capacity problem and increasing its profits and market share.

Ans.B. FINANCIAL EFFICIENCY RATIOS

$$\text{Debtors days ratio} = \frac{\text{Debtor}}{\text{Sales turnover}} \times 365$$

Year 2004

$$\text{DD ratio} = \frac{16}{200} \times 365 = 29 \text{ days}$$

Year 2005

$$\text{DD ratio} = \frac{23}{250} \times 365 = 34 \text{ days}$$

$$\text{Stock turnover ratio} = \frac{\text{Sales turnover}}{\text{Stock}}$$

$$\text{Year 2004} \quad \text{STR} = \frac{200}{120} = 1.67$$

$$\text{Year 2005} \quad \text{STR} = \frac{250}{180} = 1.39$$

- (b) The financial efficiency is the efficiency with which a business manages its working capital of finance. Mercardo's debtor collection period has increased slightly indicating a slightly deteriorating financial position. This means that its debtors have increased by a greater proportion than its sales turnover has increased. To improve this situation, Mercardo could offer a shorter credit period to its customers by giving discounts on early payments or by denying credit to frequent defaulters. This would improve cashflow as well as reduce risk of bad debts. However, it may harm customer loyalty or dissuade potential customers from buying Mercardo's products and buy competitor's goods who offer a credit period as according to their wishes.

The other way to improve efficiency is by controlling the stocks. The stocks kept have increased by a greater proportion as compared to sales. This increased stock holding causes an increase in costs of storage and increase chances of theft. It is not able to turn stock into sales often in an year. To improve the efficiency the firm should implement a stock control system which would be the use of stock control graphs. This would help it decide the

economic order quantity, maintain the minimum stock levels so that they do not run out of stocks and also keep a maximum stock level so that storage costs and opportunity cost of stocks is controlled. However, if they have good relations with suppliers then they may use just in time manufacturing and stock control. They should also try to increase sales through promotion, etc. Ordering and delivery systems should be without problems. Demand increasing suddenly would result in less catering to customers needs value analysis is the process of analyzing whether a product or a new product design can be made more efficiently without reducing its consumer appeal. It involves three aspects of a product appearance, performance and economy of manufacture which are represented as the three corners of a triangle. In case of Mercardo's mobile phone, the appearance is as important as the cost and features (Quality) of the phone. Each of these three pull at the product to different corners of the triangle. Value analysis helps value analysts to arrive at the best combination of these three features by working closely with the different departments especially finance, marketing and production. The data collected from market research would help them decide the features or performance expected by consumers. Value analysis would help in selecting the material to develop the cell phone and its style at the best possible cost so that it satisfies the customers. Comparisons with competitors should also be undertaken and several ideas would be analysed through value analysis before determining the final one.

The success of the new phone would depend upon several marketing factors. Firstly is the market research that has been conducted. The extensiveness of the research i.e. whether or not it was able to involve the potential customers of the new cell of Mercardo in the research. The reliability of the data collected and the techniques used are also necessary to gather all the necessary information of the features required by the people. Only if the proper research has been undertaken can Mercardo plan upon the design of the cell phone which would suit all the different market segments that Mercardo plans to target. Only if an effective market research has been conducted can a new cell phone have any chance of success as then only could market trends, gaps and demand be followed in the production of a satisfying product.

Secondly, the product itself is essential. For this value analysis is undertaken to ensure that the development of the product incurs cost; which could be covered. Also it should be attractive as stylishness and fashion are greatly associated to mobile phones along with the features it offers. The color, size and weight should all be given consideration as should maintenance of high quality. There is a lot of competition to Mercardo as the mobile market is highly competitive. Therefore, for its successful launch, the new phone should have innovations, be better than that of competitors as well as less costly. Unique selling point – only then higher prices.

Thirdly the price that Mercardo charges should be such that the customers are willing to pay and should also cover the costs of the production, development and research for the mobile. It would also have to be in line with competitors unless and until a very innovative design is produced in which case, the sales success could be brought about by opting for price skimming strategy. Thus pricing strategy is another important factor Mercardo has to consider in order to capture the target number of target market price elasticity.

Also distribution of the phone should be effective and wide so that maximum potential customers have an access to the phone. This includes choosing the right outlets. Usually the major cities of a country have a mobile market of which all potential customers are aware. So Mercardo should ensure enough availability in these outlets. Then because of high competition it should use promotional techniques such as after sales service, free CD containing guide on use of phone features and etc.

Finally advertising is a very powerful tool that influences success of the phone. The advertising media used should be one that reaches all target customers, it should also be informative highlighting the features of the phone and should also be persuasive to encourage people to buy it against that of competitors. The image adverts create are also very important as they play an important part in psychologically persuading or dissuading a particular segment of market from purchasing a product.

Thus it is necessary to take into account all the marketing factors and efficiently decide upon them for a successful launch of a new product i.e. mobile.

- Ans.5. A constraint on business activity is a factor that limits the decisions that the business can take. There several external economic factors which limit business activities such as growth or economic recession, inflation, unemployment, government policies etc.
- Economic recession may occur in the country in which overall GDP falls, unemployment rises as incomes fall and demands of goods and services decline in general. In such a situation Mercardo would also find its sales falling as people spend less or have less to spend and the profits decline but not due to any inefficiency on the part of Mercardo plc. There would be spare capacity and productivity would decrease, comparing its success. Inflation is another economic constraint. It would be cost – push, demand pull or monetary inflation. It is the general persistent rise in the prices of goods and services over a period of time. Inflation for a short duration is not a drawback (constraint) and can actually increase success chances of Mercardo plc as cost increases can be passed to consumers. Also the real values of Mercardo's debt falls as the value of money falls. Also rising prices would increase value of fixed assets strengthening the financial position and an increased gross profit margin on sales as stocks bought earlier have lesser real value. However, long periods of inflation could crate major problems for Mercardo's success. High rates of inflation would cause staff and workers to demand wage increases as they want the real value of incomes to remain constant and this would greatly increase costs. Cashflow problems of Mercardo would worsen as it needs more to pay the increasing costs of raw materials and expenses and it is already highly geared.
- Inflation would cause interest rates to rise. This results in the fall of disposable income of consumers and people reduce spending. Because of this there is a further decrease in demand of Mercardo's products. Also Mercardo would have to pay higher interest for all the loans it has taken and its profits would decrease considerably or it may even go into losses. There would be uncertainty about future forecasts won't be reliable and this would result in Mercardo stopping its expansion plans as investment appraisal won't give a clear picture of the returns.
- Another economic constraint is unemployment. This is when members of the working population are willing and able to work but are unable to fund employment. There it is a waste of human resources. An increase in unemployment reduces demand for Mercardo's goods and services by reducing the incomes of those looking for work. In cases of frictional unemployment, if a vacancy arises in Mercardo than they would remain unfulfilled for long periods of time reducing efficiency of business. Part of the tax charge for paying unemployment benefits would fall on businesses and this would reduce profits.
- Then fluctuation in exchange rates also are a constraint for Mercardo. It exports its products. Therefore, in case of an appreciation of the country's currency, the exports would become expensive for the buying country as their value of currency has fallen against that of the country in which Mercardo operates. Therefore it would find its sales falling as it becomes less competitive on the global market resulting in lower profits.
- Government economic policies and intervention also are a further constraint against success. If the government introduces a fiscal policy to reduce aggregate demand through higher taxes and reduced government spending. The taxes world reduce consumer demand as their disposable incomes fall causing a fall in the sales of Mercardo. Also higher corporation tax reduce the retained profits and less is available for shareholders. Lower spending would resulting in lower living standards again adversely affecting Mercardo causing seven implications to its success. Also if a minimum wage rate legislation is passed then the costs of Mercardo increase due to which it may have to raise prices to maintain profitability causing sales to fall and limiting its growth potential.
- Economic constraints have severe implications for the success of Mercardo as it is an exporting company as well. Whether there is local inflation or fluctuation of exchange rates Mercardo would be faced with falling sales, rising costs and overall worsening of financial position. Technological social environmental to sectors are also required to be considered as Mercardo it an exporting firm.

## Section B

Ans1. Motivation is the desire that pushes an individual to work well. It is an influence that causes people to behave in a particular way. Mercardo could motivate its production line workers through financial rewards such as an increase in wage rates or profit sharing, and through non – financial rewards such as job enlargement and delegation alongwith the use of motivational theories such as McGregor's Theory X and Y and Elton Mayo's Hawthorne Effect.

The main reason for low motivation is the dissatisfaction with their wages for production line workers. They receive half as much as the quality control inspectors who do not participate in the production process. These workers receives a low weekly wage and a bonus for meeting output targets. This means that in case of power failures or machinery break down at the factory the workers would not be able to meet targets and wouldn't receive the bonus. This leaves a feeling of frustration as such problems are beyond the control of the workers and they feel that they have been treated unfairly.

Thus firstly, the pay of the workers should be increased. After all according to Taylor's Scientific Management worker want the money. Also according to Maslows Need Heirarchy, the most basic needs are the psychological needs of hunger, thirst and shelter which are gotten by the wages. These wages, if not at par should be close to that of the quarterly inspectors because the inspectors do not contribute to the output of a company. Mercardo would by this definitely face rising costs of labour but if by higher wages the workers are given an incentive to work hard then the productivity i.e. output per worker would increase. This may then off set the increase in costs and lead to an increase in production of goods.

Nevertheless, it would be the non – financial rewards that would play an important role in maintaining the high motivation levels that are initiated by the financial rewards. Profit sharing is also a financial reward would help worker feel more part of the business of in years of high profits they are given a percentage of profits. They would then wish to contribute to wards the maintaining of this profitability. Job enlargement (including job enrichment and job rotation), team working, quality circles, target setting, delegation and appreciation and recognition by the Mercardo (awards) are all methods that Mercardo could use to motivate employees.

Job enlargement increases the scope of the job so as to provide broader and deeper tasks. This would involve job rotation where the workers could switch jobs after a certain time that allows them to handle a variety of Jobs and job enrichment that organizes work in such a way that employees are able to use their fullest abilities and do work with lesser supervision. Delegation should also be undertaken which is the passing to subordinates. This would mean telling the workers take certain decisions as to he performing of tasks. Empowerment would go a step furthur and give them control on how to perform their tasks by employing efficient methods.

Job enlargement, delegation and empowerment are all in accordance with McGregros Theory Y according to which workers like to work and seek responsibility. These methods help workers to feel a greater part of the process and business as they carry but more than one task and are encouraged to become more efficient. Since they are given responsibility, they feel trusted and feel more loyalty to Mercardo. As they carry out tasks related to the entire process they derive greater satisfaction of having seen the end result. They increase their skills gain more experience and open more opportunities for their future. The only danger is that some workers may be afraid of performing additional tasks as they are afraid of failure and thus losing jobs.

Then team working and quality circles would also be made. According to this the workers should be divided into groups and given an area on the production time of which they are responsible both for production as well as for quality of products. In this way, the quality inspectors could be removed and the major reason of demotivation among employees would end. The teams would meet regularly to deal with the quality of the products its

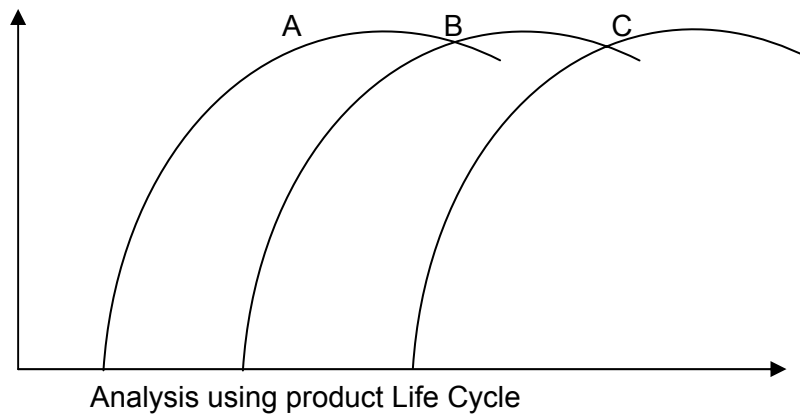
improvements as well as any problems in Mercardo's production line. They would then present their researches and results to the management who could then implement the best result on the production line as well as give rewards to the group that came up with the best idea. Quality circles allow the successful participation of the entire staff in the decision making. The workers feel a greater part of organization and feel a greater sense of achieving the targets that they themselves have helped to decide. Workers have hands on experience and are in the best position to understand the problems, more than any hired quality control officials. Workers are best able to provide solutions to exactly meet the situation and thus greatly improve their own productivity as well as the efficiency of the organization as a whole. Since their social and self – esteem needs as according to Maslow's Need Hierarchy are met through team working (interaction) and appreciation from the management (rewards) they are highly motivated.

Mercardo should make full use of the motivational theories as well as the methods discussed above. It is true that Quality Circles are informal and may lead to certain time wastes in meeting but these can be avoided by rewarding participation after office hours. Also the fear of competition amongst different circles shouldn't stop managers from employing these methods as healthy competition encourages progress and development of innovative ideas that lead to higher motivation, greater productivity and improved profitability.

### **Section A**

- Ans1. Market research refers to the process of collecting and analyzing data relating to demand for a good or service in a specific market. There are several techniques that Rave Confectionery could use before deciding to launch "Fruit Choc Delight" apart from the focus group technique mentioned. This technique gave the qualitative information regarding the taste of the chocolate. However, the quantitative methods such as questionnaires, interviews, observations and test marketing are also important. Questionnaires and interviews are part of consumer surveys. These should be directed towards parents mostly as they are the ones who buy for children so being the real customers. They should consist of unambiguous and unbiased questions that would give information as to the price that parents are willing to pay for these chocolates. It would allow the business to determine the flavours preferred as well as the target market or the market segments in which it would sell. By questionnaires a large sampling group could be researched upon as compared to interviews. They could also be asked about the type of packaging they prefer and the such details. However, there is always the chance, that the data collected is biased or unreliable if people happen to belong to the same market segment or if they do not take the survey seriously. It is very time – consuming and expensive.
- Observations could determine how consumers behave. They could observe consumers in possible outlets of "Fruit Choc Delight" as to which shelves of sweets consumers spend time on, what varieties they take and the number of consumers on each shelf. This could give idea as to the packaging i.e. the colors used and the image it produces that attracts customers, the number of consumers in a particular region of a product. However it doesn't give opportunity to ask for explanations.
- Test marketing could also take place after a decision has made to produce a limited quantity of a new product i.e. Fruit Choc Delight but before a full – scale, national launch is made. This would involve selling and promoting the chocolates in a limited geographical area and recording consumer reactions and sales figures thus giving a realistic idea of the expected success.
- Finally secondary research should in fact must be undertaken to provide exact demographic statistics as to the population distribution and the incomes of the consumers. Secondary or desk research should be conducted before as it already exists high for different purposes as to the one required by the business. It is obtained quickly but may not exist for a completely new product. Product portfolio is the group of all product lines of a company. Managing it or analyzing it means launching new products into the market at the right time. This can be

done through product life cycle or Boston matrix techniques and is very useful for Rave in efficiently planning chocolate products as well as other sweets.



This technique would enable Rave to effectively manage its products as well as cashflow. This means that when one range of chocolate is faced by declining sales or has reached the saturation point then there should be another product to launch to replace it. In this way once Rave receives cashflow from one type of sweet, it should efficiently invest it into the research and development of another one. This would allow Rave to reasonably balance its cashflows so that there would be finance available from successful products for those that are faced with deficit. It would also allow the factory capacity to be kept at roughly constant levels as declining output of some goods is replaced by the increasing demand for the recently introduced products. This allows a balanced portfolio.

The other and more important technique for product portfolio analysis is the Boston Matrix. This highlights the position of each of a firm's products in terms of market share and market growth. This allows not only an analysis of the existing products portfolio but also what steps the firm could take next.

		MARKET SHARE	
		High	Low
Star ☆	A	Problem child ?	B
Cash Low	C	Dog	D

Rave faces constant sales and decreasing profits. The Boston Matrix analysis can help it to improve the current situation. By dividing its products into the categories shown, it would be able to determine the best strategies that should be used for each product. The cash lows are the most well established product in a mature market. They require harvesting or milking as cash inflows are high and it is a profitable product. The "Mints" in Appendix B could be classified as such. Therefore cashflows from this should be invested in other products in the portfolio.

"Stars" are successful products that operate in an expanding market like the "Fruit bars" whose market growth is also high and so is market share. These are the ones that have to be held at their position through continuous support so that they maintain their market share. There should be continuous small changes to fresher than so that consumers continue purchasing these sweets e.g. packaging changes etc. These require investment as their market share can increase. The problem child are the ones that require building up such as the "Candy Bars". They require extensive advertising, more distribution outlets and finance to be turned into "stars". But if sales do not improve and actually decline then either the chocolate should be redeveloped or withdrawn from market. Finally dogs such as the "Fruit Chews" and these require divesting i.e. their production should be stopped as they have no growth or success potential. They are the dogs. Thus this analysis also enables firm to build a balanced portfolio.



However, these techniques do not guarantee success as this depends on the accuracy of analysis and the skills of managers performing it and employing the strategies. But they are not good predictive measures and continuous detailed market research is necessary. However, there are still high chances of unexpected effects of competitors' decisions, changes in technology and fluctuations of economy such as the economic recession. Rave experts.

Ans.

4a. FRUIT CHOC DELIGHT – Decision Tree

- b. Expected monetary value:  
 Recession:  $6(0.6) - 9 = -5.4$  - Costs are also for a recession or no recession so they should be adjusted before multiplication  
 No recession:  $18(0.4) - 7 = 0.2$   
 Monetary value =  $(-5.4m)$   
 $\frac{0.2m}{(5.2m)}$  loss

- c. Decision trees is a method of considering all options regarding an investment or idea and the chances of them occurring. It is useful for Rave Confectionery because it forces the managers to consider all of the options and variables which in this case is the high chance of an economic recession. Also the decision tree produced is easy to flow and allows numerical calculations to be conducted after taking into account the chances of Fruit Choc Delight being successful in case of economic growth or failing in case of economic recession. In this case the chances of recession are so high as well as costs that they outweigh the profits that Fruit Choc Delight would produce if there is no recession and the expected monetary outcome therefore is a loss. According to this Fruit Choc Delight should not be marketed. However it must be remembered that the probabilities are just predictions which may not be accurate as economic recession forecasts are based on past data while present circumstances are changing. Decision trees could only aid the decision – making process of Rave but cannot replace the consideration of risk or the impact of non – numerical qualitative factors.

GROSS PROFIT MARGIN

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales Turnover}} \times 100 = 36.9\%$$

YEAR 2005

$$\text{GPM} = \frac{65-43}{65} \times 100 = 33.8\%$$

#### NET PROFIT MARGIN

$$\text{NPM} = \frac{\text{Net Profit}}{\text{Sales Turnover}} \times 100$$

##### YEAR 2004

$$\text{NPM} = \frac{10}{65} \times 100 = 15.4\%$$

##### YEAR 2005

$$\text{NPM} = \frac{5}{65} \times 100 = 7.7\%$$

#### GROSS PROFIT MARK – UP

$$\text{GPMU} = \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$$

##### YEAR 2005

$$\text{GPMU} = \frac{22}{43} \times 100 = 51.2\%$$

#### OPERATING EXPENSES OF %age OF SALES

$$\text{Expenses as\%} = \frac{\text{Operating Expenses}}{\text{Sales}} \times 100$$

##### YEAR 2004

$$\text{Exp as\%} = \frac{17}{65} \times 100 = 26.2\%$$

Rave is faced with declining profitability mainly because sales have remained stagnant as \$645 million while costs have increased. Gross profit margin has worsened from 36.9% to 33.8%. This is because the cost of sales have increased, may be or most likely due to the rise in prices of stocks by suppliers or increased wastage of raw materials. The Net Profits have also decreased as shown by the fall in net profit margin from 15.4% to 7.7% which is a decrease by half. This is because of the rise in overall operating expenses especially promotion costs which have tripled.

This means that increased advertising is required to even maintain sales. This means that the products have all reached motivation or saturation and their sales have stabilized. They need to bring innovation in their overhead expenses have remained constant. Even their management costs have increased causing their profitability to decrease. This may also point to ineffective advertising methods.

Ans. Lean production is a Japanese system whose objective is to produce quality output with fewer resources i.e. less waste and less duplication. This is cutting out on anything which adds useless complexity, cost and time to the production process. It raises productivity and reduces costs. Lean production methods include Kanban, Just-in-time manufacturing, Kaizen, Quality circles, Team-working, Empowerment, Simultaneous engineering and Flexible specialisms.

Rave should introduce these methods in order to become more efficient and increase a profitability. The lean production method of flexible specialisms which involves automation of factory and use of the latest technology variety of sweets of different flavours which it produces the batches which is time-consuming and costly. Using the latest technology machines that can produce these sweets other slight variation in flow production would be

very cost effecting leading to higher economies of scale, satisfaction consumers as chocolates still look hand-made and disease sales. It would save time switching from production of one method to next and so again increase production which reduce costs considerably as they don't require stocks to held thus reducing storage and warehouse costs and prevent from turning bad. Also just in time means that stocks produced exactly at the time required by customers thus delivery of fresh sweets to the market. Just in time requires a very efficient system of stockholding as very flexible machinery which could be changed software. This would also enable Rave to produce its technique chocolates quickly and efficiently.

JIT would reduce the capital invested by Rave in stocks and reduces the opportunity cost of stockholding could be used for a more productive purpose such as setting up a new production time to offer the increased choice. The greater flexibility that would be required by JIT would enable Rave to rave quick response times to changes in consumer demand a tastes and thus increase the life cycle of its goods by easily implementing extension strategies. The much skilled and adaptable staff required by JIT may gain from improved motivation causing workers to feel more loyalty towards Rave.

Lean production also involve Kaizen or continuous improvement which is only possible by applying McGregors Theory Y and farming a decentralized organizational structure where there is increased involvement of workers through empowerment, team working and quality circles. Rave's workers would feel increased motivation from this approach which suggests that workers actually know more than manages about how a job should be done or how productivity might be improved. Workers who work daily on the production line have a lot of hands-on experience and are more aware of the problems of production and therefore may have a better idea of improving quality. Therefore, groups or teams should be made and each team be empowered to carryout their tasks and suggest solutions to any faults which may then be implemented. This would greatly help improve Rave's profitability.

With Kaizen and JIT is required the Kanban system that arranges the factory floor in a way which requires least movement of stocks, work in progress and finished goods. This would again help Rave reduce costs and time wastage and increase output. Costs saved could be used for research and development of new sweets demand by consumers as well as in promotion and thus increase sales and profits of Rave Confectionery.

The major drawback of lean production is the initial capital at cost which would have to be financed by either loans or share issue. And then there is the increased dependence on suppliers and loss of purchasing economies as several small orders have to be placed. However the advantages for outweigh the costs in terms of increased output, productivity, profitability, efficiency, quick response to changes in external environment and production of variety of goods.

Staff involvement and cooperation is essentially required to reduce costs and increase profitability. The first and foremost way is delegation of tasks to lower management and workers. This would allow them to take decisions, given them responsibility and make them feel trusted and required by the organization. Currently, the high quality chocolates are finished manually and skilled workers are required to decorate and shape chocolate gifts which is a slow method. So workers should be made to understand the low productivity due to these hand-made products. They should be given incentives such as profit sharing so that this would let them understand importance of high productivity. They would then be more flexible and adaptable towards the introduction of modern machinery which enables mass customization and allows chocolates that are as decorated as manual ones to be introduced. Workers may feel insecure because they fear job losses but they should be told about creation of other specialist jobs and should be trained to handled.

Meeting should be held in which certain workers should be included as representatives and their advices and suggestions listened to. Workers often have import and contributions to make since they are the ones directly involved in production lines. When targets are being set to increase sales them workers should be included in discussions of strategies. They would feel more motivated to achieve goals that they have had a say in setting and would wish to see sales increased thus working trader.

The Rave higher management should also encourage workers in the research and development department to take their own decisions. They should be empowered which would allow them to be creative as they are not limited by decisions already made. This would allow them to come up with new and innovative ideas for sweets and chocolates and thus make them more competitive in the market. This could increase sales and market share of Rave.

The management of Rave should also introduce team-working which involves the dividing of workforce into fairly small groups. This would fulfill their social needs as in accordance to Maslow's Need hierarchy and what was seen by Elton Mayo in his Hawthorne effect. These teams should focus on a particular area of production and the members of each team has common aims. For this to be effective Rave's management and workers should cooperate with each other and training of staff and workers need to be conducted and they should be given responsibility to work independently. This would improve flexibility. Teams should be encouraged to plan their own work schedules, choose their own methods of work and solve their own problems as in quality circles. This should lead to quicker decision making and generation of more ideas. It is also suggested that communication and labour relations may improve, therefore there'd be less chances of absenteeism, and labour turnover, this improving the reputation of Rave and cause a decrease in costs without shifting or sub-contracting production. This would lead to greater productivity.

Sub-contracting production has a lot of costs such as setting up a whole new factory and firstly deciding to locate i.e. starting from scratch. But if existing workers are involved in decision making and they reduce average costs and improve efficiency then this would not be necessary. With team-working would come cellular manufacturing that creates a healthy competitive environment which would enable each cell to quickly meet all targets of production and thus encourage sales and profitability increase as customers orders are met on line and maybe prices reduced depending on elasticity.

### **Section B**

Ans6. Rave is a consumer product private business with the objectives of a private company. Survival is one of its objectives while others include profit maximization, increasing market share and increasing market growth. When competition increases survival becomes a necessary objective.

Rave would definitely have to use the extension strategies for its sweets in order to try to increase its sales. It may have to change the packaging and colors to attract customers existing as well as new ones to the product. There would be a need to redesign the sweets sold to the mass market so that children are attracted to the new shapes and sizes and the new presentations as compared to competitors. There is also a need to innovate products so that consumers are something different and unique in the products as compared to that of competitors. A consumer product business may also have to find new markets for existing products. If currently Rave is producing sweets only for children and the high quality chocolates only for the elite class. Then it may try to sell sweets for the entire family by creating an image of sweets for people of all ages chocolates could be introduced for the mass market by creating a wider product range. This would enable it to have a sales increase as it offers more variety of goods as compared to competitors and so market share may increase.

Then the prices that Rave may charge for their chocolates and sweets have to be competitive that is in line with that of the competitors. They may have to use cost plus pricing strategies to cover costs but not increase it to more than competitors. This may help it survive. Even if it could lower prices slightly depending on the price elasticity of demand of the different sweets, this may also encourage sales and help survive.

Rave would also have to increase distribution outlets. This maybe through opening more retail outlets directly to sell to customers. It may even encourage its customers which may be either retailers such as supermarkets to stock more products and in more markets. If products i.e. sweets are more widely available then they will sell more and this is necessary in a highly competitive markets. Because if customers don't find the sweets, then they won't

buy the next time as there are substitutes available. However, this involves additional costs such as increasing production. If capacity to produce more is not available then high capital costs need to be incurred. Also the big retailers may demand credit period at par with the competitors which means slow realization of profits.

For survival another very important requirement is the promotion undertaken. Extensive investments need to be made for advertising on different medias that reach out to the target market. However because of the active pressure groups which are giving chocolates and sweets a bad name. it is necessary that the adverts donot directly offered these groups. They should be handeld carefully such to be for family occasions and parties and to be a part of healthy life. Then these adverts should have to be comparative in duration and attraction as that of competitors. They have to be persuasive and should be upon televisions, bulletin boards, etc. they should encourage people to buy and come rpeatedly. Not only is advertisement enough but other promotional methods are also required. This involves offers such as buy 1 get 1 free or offering gifts but it encourages sales and helps in survival by a better market share. It may also encourage loyalty though this is not common in sweet market. The promotional strategies should also create a brand iamge because if a strong one is built then this casues a strong survival opportunity as well. Also an important way of survival is big sponsoring social events such as fund raising for an orphanage or other welrafre schemes. This would give it a good name with pressure groups, improve the reputation of the organization as well as increase sales.

Finally, are effective system of market research is also required. This mean that continuous interaction with customers through questionnaires should be conducted to provide information as to the strength sof the business by highlighting the tastes that customers want and getting an idea as to the products they demand. Continuous research would show the changes in market trends, the actions of competitors as well as the economical environment. This would allow the business to respond quickly to any change sin consumer patterns and give it an advantage over the competitors.

All these methods of survival require one thing in common which is finance whether extension strategies, distribution channels or promotion ideas. They all need finance which has to be effectively managed so that the benefits derived are greater than the costs. This taken into consideration, the business would easily survive.

Ans.2.

$$(i) \quad PED = \frac{\% \Delta Q_D}{\% \Delta P}$$

$$- 1.2 = \frac{\% \Delta Q_D}{10\%}$$

$$\% \Delta Q_D = - 12\%$$

$$\frac{\text{New Quantity} - \text{Old Quantity}}{\text{Old Quantity}} = \% \Delta QD$$

$$\frac{\text{New Quantity} - 300}{300} \times 100 = -12\%$$

$$\begin{aligned} \text{New Quantity} &= 264 \text{ students} \\ \text{New Price} &= 2000 + 2000 \times 10\% \\ &= \$2200 \end{aligned}$$

$$\begin{aligned} \text{Revenue} &= 2200 \times 264 \\ &= \$580,800 \end{aligned}$$

$$(ii) \quad \text{Teacher's salary costs} = 400000 - 400000 \times 5\%$$

$$= \$380000$$

(iii) Material costs =  $120000 - 120000 \times 10\%$   
 $= \$103000$

(iv) Revised Forecasted Profit & Loss Account

	\$1000
Revenue from student fees	580.8
Less:	
Teacher's salary costs	380
Material costs	108
Promotion spending	5
Other costs	85
	<hr/>
Net Profit / Loss	2.8

(b) Budgets are the future plans of a business or organization expressed in monetary or financial terms. Introducing budgets managed by Heads of Department would prove very beneficial for Wotton College which is facing financial difficulties and net loss. Setting budgets provides targets to follow. It allows for planning. It would enable the management of Wotton College to translate the objective of the institution of earning a profit into intentions for achievement. It would give a sense of purpose to the heads. Budgeting would allow for the effective allocation of resources to different departments depending on the priorities. A head of department complained as to how they never knew how much to spend on text books. Budgeting would allow overcome such problems and confusion. They would allow finance to be efficiently distributed as to spending on textbooks, salaries and other costs.

Budgets would also allow for the setting of targets such as cutting on material costs and other costs. It would involve co-ordination of all departments to set the targets and thus involve discussion with staff as well when discussing changes to their pay systems. This would increase motivation, reduce conflicts and allow employees to feel a greater part of the institution. Budgeting may also allow for setting aside funds to update equipment and renew buildings. It would allow for the monitoring and modification of targets as according to the change in environment and comparisons with the budgets of the competitors. The budgets could then be used to review the performance of a department and the managers will be appraised on their effectiveness in reaching targets. Successful and unsuccessful managers can therefore, be identified.

However, the shortcomings of budgets must be taken into consideration. It may be time consuming to get all the head of departments of Wotton College to set, agree and control the budgets. Also these budgets may fail to reflect changing circumstances and become unflexible. Budget holders can consider the budget the limit to which they can spend regardless of the resources needed. In such a case it may become inefficient.

b. Critical path = ABDGH  
 Minimum Duration =  $15 + 30 + 30 + 8 + 6$   
 $= 89$  days

c. The network analysis allows Paula to calculate the duration of the building project for the school. Considering 20 working days per month, the project is due to last early 4 ½ months. If begun immediately, it would be completed well before the school begins. This technique allows Paula to keep updated with each activity's earliest starting and latest finishing times so that the material supplies are on time and that the project follows the schedule actually. Also the critical path shows the activities which must be completed on time in order to allow the building to be completed as per schedule. In case of delays, the resources could be shifted from non-critical activities to critical ones so as to accelerate work.

However, it is necessary to consider other factors needed to be taken into account is the national strike by skilled building workers who are already in short supply. This may cause major delays in the completion of the project despite very efficient management thus project could be delayed to after 6 months and cause students to leave Wotton College.

Q.3. If Wotton College takes over Midvale, it is using external expansion to grow it is horizontal integration. Takeovers and mergers have great benefits which will also be true for Wotton College. The buildings of Wotton College are but of maintenance and costs of maintenance would be very high. Taking over Midvale would provide large grounds and new buildings. The large grounds would provide opportunity for further expansion in the future. Not only this, but the new buildings would have a capacity of more than 320 students which is the maximum capacity of Wotton Colleges. This would enable higher enrollment of new students and thus increase the revenue of the school.

Also since, the Midvale has new buildings, maintenance costs would be low and the equipment would be more advanced and updated. Thus there would be a chance of charging higher fees for the better educational facilities. This would be possible because the takeover would reduce competition and thus decrease the price elasticity of demand. Then this expansion would enable Wotton College to benefit from economies of scale that are the cost advantages obtained by operating on a larger scale. This would include Paul forcing suppliers to provide lower prices for books and stationery, etc thus reducing material costs. Also better staff could be hired direct to the higher prestige Wotton offers as a bigger college. Also because of the greater profit resulting from more students and the to charge higher fees, the profits of Wotton would increase. This may enable Paula to revise her salary structure by increasing basic pay, fringe benefits and she may also be able to provide bonuses to teachers. This would reduce the human resource problems, staff turnover and costs incurred in replacing staff. All this would increase the Wotton College as a respectable institution.

Also since interest rates are falling and consumer income rising i.e. there is economic growth, therefore, this is the best time for expansion to establish Wotton College as a strong educational institution providing quality education and good facilities. This takeover would place Wotton in a position to compete against the foreign owned schools especially the one being opened in the town near Wotton. The costs of suppliers would be low, staff motivation would increase due to better chance of improving pay systems and the student loyalty towards the college would increase due to which students would be reluctant to leave a good campus.

However, for the takeover Paula would have to take a partner for the finance required. Thus Paula would now have to operate the college as a partnership, she would lose the exclusive power to take all decisions as she would have to discuss them with her partners. She would have to share the control of the college. Nevertheless, if her partner has a more democratic style of leadership then Paula may be induced to include her staff in discussion and decision – making process thus increasing staff motivation. Also problems of the college may be solved quickly with two people working on solution, though there may be conflicts between partners which may actually be time consuming to resolve.

Also there would be the legal difficulties of merging and paper work as well as the high costs involved in the settlement of the owners of Midvale. Not only this but there would be two staff groups, one from Midvale and one of the original Wotton College. This would lead to Human Resource problems in dealing with both groups. There would be a need to coordinate them and create a harmonious working environment between them. Some of the teachers may have to be made redundant in case there are excess teachers in certain subject departments. However, for other subjects there may actually be a lack of teachers. This would create the need to train, recruit and find a competitive teacher. This leads to additional costs. There may be confusion, discord and job insecurity if the situation right after the merger is not handled skillfully and professionally. Therefore a Deputy Head would have to be hired to look after human resource planning and management including a system of job evaluation/

Ans.1. Effective communication occurs only when the message has been sent via the correct media to the correct receiver who sends back feedback to show that he has understood the message. At Wotton College, communication between Paula (Head of the institution) and her staff is very poor. The staff are very dissatisfied and feel as if they are not included in any decision – making. Due to this they are very unmotivated and staff turnover is high. One way to improve communication is through formal ways such as meetings and group discussions between staff and management. This would involve discussion on the problems faced by staff. It would also involve staff in the decision – making process related to budgets, salaries and text books and curriculum for different classes. The staff would then feel a greater part of the college. They would feel that their opinions actually matter to Paula. Setting target for the college with their help would make staff more motivated towards their achievement if they feel that they have had a part in setting them. E.g. improvement of the results of each class. They could also be shown appreciation during these meetings if their results have been excellent. This would give them a sense of recognition for their hardwork. However, there are limitations to it as well. It is time – consuming to hold meetings and discussions with everyone. Also the staff would not be used to the two – way communication because of Paula’s autocratic leadership style. Therefore, in the beginning the staff may be happy because of frequent meetings but it would soon become tiring as they would run out of suggestions and may become frustrated. Also there will be conflicts between management and staff which may cause further problems. Communication could also be improved through newsletters and bulletins which could either be weekly or monthly. This would give details of the events taking place at school as well as information about any upcoming event and keep staff aware of their surroundings. Then IT such as the school e-mail system should also be used to inform the staff of the complaints of staff that IT is just lying idle. Use of IT informs the staff quickly about any decisions or policies as well as gives them opportunity of giving feedback. However, the maintenance and usage of the computers would be costly and cause further losses for Wotton College. Then there may be communication overload due to too much use of network. This may lead to technical faults and again require expenditure to resolve the faults. Informal communication is another way to improve communication. In this informal grouping of staff discuss the problems freely and are much easier than the formal ones. This would enable the staff to share their own opinions on a work – related problem or issue and then they might be encouraged to use the formal channels to communicate their feelings to the policies such as those regarding the salary can use informal channels to hold discussions over these changes. If she observes a positive response then she would implement the changes. However, it is again time – consuming and inaccurate and could lead to making of wrong decisions. It is unreliable as there are greater chances of rumours and exaggerations i.e. grapevine. Despite the drawbacks several of these methods could be implemented because a satisfied staff is necessary for the smooth running of the college. However it is necessary that Paula herself wants to improve communication with her staff. It may be that she wants to retain – power and therefore does not wish to delegate or involve staff in decision – making. Thus it is necessary that she has a flexible nature and is ready to change her style of leadership to more democratic.

Ans. Marketing plans a detailed report containing the objectives, budgets and strategies of the organization. Objectives are the targets that an organization wishes to achieve, budgets are the forecasts of finance available to the firm to achieve the objectives and strategies are the actual ways to achieve objectives which is designing the 4Ps of marketing. The objective of Wotton College is to increase sales which is increase the number of students through which the market share of the college would increase. They also wish to improve the buildings, construction and quality of education to build a strong reputation. Paula is objective is also to improve results attract good teachers and maintain good staff. This would eventually enable them to make a profit. Also Wotton College had no budgets before because of which the staff was confused as they never knew how much to spend on textbooks or other areas and departments. Therefore, the heads of department should be given authority to carefully



prepare the budgets so that the financial difficulties could be avoided and they would know how much to spend and where to spend E.g. they should increase promotional spending. Finally, strategies have to be prepared keeping in mind the objectives and the finance available to them.

Firstly, Wotton College has to build and maintain the product which in this case is the service that is providing education. For this Wotton College needs good quality buildings and their maintenance. It requires better equipment and other facilities such as canteen and sports field. Also there should be qualified and experienced high quality staff which would allow the college to improve its results, build a strong reputation and attract students to increase the market share. They would also want best curriculum textbooks so as to improve results. However, all of this adds to the cost as good teachers wish for higher monetary and non – monetary rewards better buildings and facilities again require expenditure. This would lead to further over all losses and go against the firm's objectives. Therefore, Wotton college may require a compromise on certain aspects of its product.

Then the price changed i.e. the fee structure also has to be carefully designed. This decision needs to take into account the elasticity of demand. Elasticity is greater than 1 which means that a change in price will cause a greater change in quantity demanded. Therefore increasing prices is likely to cause a greater %age fall in numbers of students which may result in lower revenue. However, since the quality of education is being improved, Paula can take the chance to increase fees as parents and students may be willing to pay. This could be ascertained through the market research which could be in the form of a short survey to keep costs low. Nevertheless the competition especially from foreign schools is rising. Thus charging higher fees is a risky strategy. Therefore, it may be best for Wotton College to maintain competitive fees, build a strong reputation and student and staff loyalty and then by to raise fees.

Paula can also greatly use promotion in her favour to attract students, raise revenue and thus have a higher chance of increasing profits. Promotion would be used to inform about the positive changes to the buildings, facilities and equipment. It could be used to create an image of Wotton College as an institution with state of the art facilities and excellent teachers. The promotional elasticity of demand at 2.3 is very high which means that a slight increase in expenditure in promotion would cause a greater increase in the number of students. Thus her objectives of greater market share have a higher chance of being achieved. Nevertheless, since Wotton is already in a loss, it cannot afford to greatly increase promotion expenditure. The time and cost of spending on promotion should not be increased by more than the revenue generated using promotion. If this could be ensured, then total revenue would rise by more than costs increasing profits of the institution.

Finally Paula needs to ensure that the distribution which in this case is the accessibility to the school is efficient. It shouldn't be difficult for students to reach the premises. There should be the presence of a good infrastructure in the region of Wotton College. The roads should be present of high quality, there should be a good communication system in place as well. Also the traffic control system should be efficient and there shouldn't be traffic jams in the area around the college because this causes severe problems for students and parents. Students are delayed from reaching the college on time because of traffic. Also there should be parking place available so that students face no difficulty in parking their cars and can comfortably commute back and forth from school. However, this could lead to cost increases and cause further financial difficulties for Wotton College.

It is necessary that Paula establishes a good and accurate market plan for Wotton College. The objectives set should be achievable and set according to the budget available to her. The strategies should be such that they don't increase costs by too much but at the same time should try to improve the revenue so that profits could be made.

## **SECTION B**

Ans.6. Human Resource Management (HRM) is the planning of workforce, recruiting, selecting appropriate staff, training, appraising and developing staff as well as monitoring their

performance and providing monetary and non – monetary rewards. It involves all the managers in developing of their staff not only HR Department. If Paula decides to takeover Midvale school then she will be faced by several problems associated with mergers.

The cultures of Wotton College and Midvale may be different. Therefore the staff as well as the management may find it difficult of both schools to get together. In Wotton College the culture is autocratic while in Midvale it may be democratic where everyone gives their suggestions. Therefore after the merger, employees may feel insecure and uncertain about giving their suggestions as they wouldn't know how new the new management is about listening to staff opinions. Also mergers cause disturbance in the running of an institution as all management, planning and developing strategies has to be done from scratch. Therefore, staff would feel frustrated and demotivated and there would be high labour turnover. Staff may go to other competitors where there isn't any confusion or problems and they could work in a peaceful environment. Also with combined schools, there may be requirement of less staff and so there may be redundancies which may intensify the frustration and insecurity of the staff and cause increasing demotivation. There could be conflicts between the two management. Also work force planning would be a major issue so as to get the right quantity of staff with right skills and at an affordable rate.

In order to deal with these Human Resource Management problems, Paula would have to take several steps. Firstly she needs to involve staff in the decision making process. She should use technology which is the school e-mail system to communicate with teachers, ask their opinions on policy changes. She should use the ways of McGregors Theory Y according to which managers should be democratic as employees have a lot of potential to contribute towards more efficient decision – making and they enjoy work and derive greater satisfaction if they are more involved in the organization. If e.g. Paula wants better results then she should take suggestions from teachers as they know better about the curriculum changes required. Also teachers would be more willing to work hard with the students if they are motivated and dedicated to the institutions and its goodwill. The meetings and discussions should be held on a regular basis. This would ascertain that both groups of teachers are heard to and that both groups of staff feel listened to, respected and have a sense of belonging to Wotton College.

Not only this but having good workforce planning is essential to deal with the staffing problems. It may be that after the merger, there are excess teachers for certain subjects while few for others. Therefore, there would be necessary to recruit new teachers while some may have to be made redundant. Redundancies should be dealt with carefully. Either staff could be given enough time to find a new job or they may be given enough extra salary to make up for a few months during which they search for new jobs. Moreover, right after the merger there should be training camps for all teachers so that every one receives the same guidelines for teaching at Wotton College and all have similar levels of expertise. There should also be an orientation where the staff of Midvale meets and interacts with the existing Wotton College staff. This would give them an opportunity to get to know each other and Midvale staff and employees wouldn't feel inferior to those of Wotton.

Paula should also use different approaches towards motivation to deal with the HRM problems of mergers. She should delegate tasks and authority to the Heads of Department such as the setting of budgets, buying textbooks etc. Delegation helps to add interest and variety to work and reduces the autocratic culture in an institution. It would satisfy the self-esteem needs as according to Maslow's Need Hierarchy. Moreover, she should also try to encourage both staff to work hard and get along together so as to achieve results and targets of the institution. This could be done through monetary rewards such as bonuses for exceptional results as well as through recognition for good work by giving certificates, etc. as according to the motivators mentioned in Herzberg's Two Factor Theory. This would enable staff to feel loyal towards the school and feel valued and recognized by Paula, the head of the institution. The system of communication between staff and Paula should improve so that Paula personally handles problems amongst staff and help them adjust to changes after the merger. Having a direct link to the top manager is a great source of satisfaction and motivation for employees and they are more likely to be flexible towards changes in policies, etc.

However, it must be remembered that all of these methods to improve HRM will be time consuming and costly whether it be holding meeting or discussions, or providing better communication through e-mail system (technology) or searching for better teachers, recruiting and training for subjects with less teachers. They would all lead to great costs and Wotton is already in financial difficulties and losses. Therefore, great consideration and planning would be required to deal with the HRM problems in the most efficient way possible so as to get maximum results and a well-motivated staff, loyal and hardworking teachers and competitive administration.

## PAPER 2

Ans.1

- (a)(i) Contribution is the surplus of selling price over variable costs. It is the amount of selling price that contributes towards the covering of fixed costs and hence towards profits. The formula for calculating contribution is:

$$\text{Contribution} = \begin{array}{ccc} \text{Selling price} & - & \text{Variable costs} \\ \text{per unit} & & \text{per unit} \end{array}$$

It is the revenue less direct costs too. It gives the contributions per unit.

- (ii) The wholesaler is the middleman who acts as a link between the producer and the retailer. The wholesaler buys in bulk from the producer and then sells in small quantities to several retailers enabling benefit from economies of scale. The wholesaler adds a percentage to the cost as its own profits and then sells to the retailer.

- (b) (i) Price elasticity of demand =  $\frac{\% \Delta QD}{\% \Delta P}$

$$\% \Delta QD = \frac{6-8}{8} \times 100$$

$$= 25\%$$

$$PED = \frac{-25\%}{20\%} = 1.25$$

- (ii) The resultant shows that travel books are price elastic i.e. a change in price brings a greater percentage change in quantity demanded. Thus increasing prices of travel books reduces sales by a greater %age due to which there may actually be a fall in sales revenue from the travel books.

- (c) Sophia has to take several factors into account before deciding to stop selling travel books and stocking more University books. Firstly, the sales trends are showing a continuous decrease in sales of travel books which may mean a gradual fall in their demand. On the other hand the sales and demand of university books is increasing very rapidly showing a growing and secure market. Also it is predicted that demand would rise further due to the great enrollment of students in university programmes. Not only this but Sophia could also sell CD ROMS related to university books as their sales are also in an increase since it is a new market. According to these factors sales of travel books should be gradually stopped since stocking them takes up space which could have been used for the more demanded University books.

However, travel books have lesser risks since Sophia is already established in this market. While University books are very expensive and entering the market is difficult. Also Sophia is uncertain about the prices to be charged for the university books. Then travel books have a positive contribution towards fixed costs. So Sophia has to know if university books have a contribution greater than of travel books. In addition recession is also predicted due to which overall sales would be adversely affected. Therefore, it would be better to stay with travel books instead of the riskier and uncertain economic class.

- (d) The Product Life Cycle shows the different stages that a product passes through in accordance to its sales over time. The PLC Sophia to decide the 4Ps of marketing mix for

each of the books and CD ROMS depending on the stage of the lifecycle that they are on i.e. introduction, growth, maturity / saturation and decline.

The PLC would enable Sophia to make decisions on which products to discontinue and which to continue. For example, the sales of travel books have steadily declined over four years from \$10000 to \$6000 and so this is on the decline stage. The School textbooks and other books are on the maturity stage of the PLC with stagnant sales. Sophia should not spend on promotion of Travel books, should price them low so as to finish their stock, and should not buy further. This would enable her to free space on shelves for University Books and CD-ROMS which are on the growth stage and whose sales are rapidly increasing. So according to the PLC she should spend more on the promotion of University Books and CD-ROMS specially on informative advertising to create awareness and increase sales further and create an opportunity to charge higher prices. Price decision is especially important for university books because they are very expensive to buy even from wholesaler. Also large quantities should be available on shelf as they are highly demanded by the customers. As for school textbooks and other books, the space on shelf for them should be kept constant, persuasive advertising should be used and prices charged should be competitive. Sophia may also use extensions strategies for travel books.

However, Sophia must remember that the PLC is just a tool to help with the product mix. It does not guarantee business success. Success would depend upon the accuracy of her marketing analysis through research and correct interpretation of the results and the economic situation. It would also depend upon the appropriateness of the strategies she employs. External influences such as competitor's decisions and economic fluctuations must be taken into accuracy. It must also be remembered PLC is not a forecasting tool.

Ans.a

- (i) Delegation is the passing down of authority to perform tasks from upper levels of management to lower levels of management (i.e. to subordinates) while the responsibility remains with the manager. The subordinate is only accountable for the consequences of his decision. Delegation gives a decentralized management structure with greatly motivated employees as in accordance with McGregor's Theory Y managers.
- (ii) Working capital is the lifeblood of the business. It is the capital required to carry out the daily activities of business such as buying supplies, paying utility bills, etc. It is the net current assets of a business found by the difference between current assets and current liabilities. Sufficient working capital is essential to prevent a business from becoming illiquid and so become unable to pay back its short – term debts.

(b) (i)

$$\begin{aligned}\text{Current ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ &= \frac{900000}{300000} \\ &= 3:1\end{aligned}$$

- (ii) The result shows the liquidity position of the business. In this case the current assets are three times the current liabilities i.e. the business could payback its short – term debts very easily infact, three times. This is too high a result. The optimum ratio should be 1.5 or 2.
- (iii) There are several ways that Pad man could improve the management of his very high amount of working capital. He needs to reduce his current assets especially cash, Bank which is too much. One way to improve the management is by discussing and holding frequent meetings to deal with the excess working capital instead of just once a year. He needs to decide more often as to what should be done to reduce the opportunity cost of holding so high a level of cash. Pad man could invest the excess cash in a profitable investment so as to earn returns on it instead of having it lie idle. Not only this but Pad man could also payback any long – term liabilities though this information is not given. Paying back loans would reduce the interest payments and thus increase profits as well as reduce gearing of the business.

- (c) Pad man currently gives his employees a low basic wage. Employees get extra payments from the customers who are happy with the service provided. Also bonuses are given to the best performing employees depending upon the votes given by customers. This motivates employees to work hard and give better service so as to receive the bonus. It would also keep low costs as compared to shifting to a balance based system. However, in the current system only the employees who directly interact with customers and provide services to them will only benefit from the extra payments and bonuses. This is unfair for the other employees such as those in the kitchens, etc. as they only get the low basic wage and so this acts as a demotivator to them due to which they could move to other competitor who offer a better pay package leading to staff turnover and high human resource management costs.

Thus using a salary based system where all workers get good monthly payments would keep all staff happier and there would no longer be a feeling of unfairness. The threat of employees leaving Sun Hotel Ltd. and joining competitors is reduced and staff loyalty may also increase. However, such a system may increase the firm's costs thus reducing profits. But if salaries help to motivate employees, then productivity may rise, leading to actually a reduction in costs and increase in profits. Salaries also give a security of income and would promote equality amongst the employees.

Concluding, Pad man should introduce a salary based pay system but it should not be the only way to pay workers. Alongwith salaries, there should regular appraisal of workers both that interact and do not interact with customers, and the best performing workers should be given bonuses too to keep motivation levels high.

- (d) Sun Hotel caters also to the foreign tourists. This means that if the exchange rates rise, then the prices charged by the Hotel would become more expensive for the foreigners. This would cause the sales of Sun Hotel to be adversely affected by the exchange rate appreciation due to a fall in demand for the services provided. This is because as exchange rate of a currency appreciates against that of another, the other countries find that they can buy less of the country's currency. Another way that Sun Hotel is affected is if it buys the supplies from another country i.e. import. Then Sun Hotel would find that the cost of imports have fallen due to which it could buy the same amount of goods in a lesser price. This may increase profits but sales have fallen too. So the lower costs could be transferred to the price charged and thus sales may be maintained.

Ans.a.

- (i) Non-financial motivators are rewards other than monetary rewards that motivate and cause employees to complete work more efficiently. They include job rotation, job enlargement, job enrichment, team working, quality circles, target setting, delegation and empowerment. Several motivational theories emphasize on the importance of these non-financial methods such as Herzberg's Two Factor Theory which includes hygiene factors, or McGregor's Theory Y which lays importance on delegation.
- (ii) Quality control is a process that aims to ensure that a product or service is fit for customers. This means that the benefits which a good or service is providing should be worth the price charged for it in the sights of the customers. Quality control includes prevention, inspection, correction and improvement as the traditional techniques, modern technique is Total Quality Management (TQM) which makes quality the responsibility of all workers / employees and managers instead of a separate department. In this each stage is treated as the internal customer of the next stage whereby standards are maintained at all stages.

- (b) (i) Revised Forecasted Profit & Loss Account 2006 (\$million)

Sales	20 + 12	32
Cost of Goods Sold	13 + 6	(19)
Gross Profit		13
Expenses	1 + 1	(2)
Depreciation	2 + 1	(3)
Profit		<u>8</u>

$$\begin{aligned}
 \text{(ii) Net Profit Margin} &= \frac{\text{Net Profit}}{\text{Sales}} \times 100 \\
 &= \frac{8}{32} \times 100 \\
 &= 25\%
 \end{aligned}$$

(iii) The result shows that after the launching of the new product the net profit margin has increased from 20% to 25% which means that on every \$1 worth of sales, the firm makes a profit of 2¢ instead of 20¢. This enables MatPack Packaging PLC in decision – making and according to this result, he should launch the new product. However, other factors also have to be considered especially the fact that forecasts could be inaccurate and research also has to be conducted.

(c) MatPack Packaging PLC manufactures plastics packaging for food and cosmetic firms. Due to the rapidly changing technology, MPP has to develop and introduce new products. Currently, it has again developed a new product which is a new type of plastic for good packaging. There are several marketing factors that need to be considered which includes marketing mix, market research, production etc. before launching of new product.

Firstly, the product itself has to be considered. Since, it is a very sensitive industry i.e. food which the firm provides packaging too, it is necessary that quality is maintained. All products should meet the necessary standards of industry. Also this product being environmentally friendly would have the support of pressure groups and would be more acceptable to the customers as well. However, to produce the new product expensive methods and new machinery is required. This means huge costs. Therefore, extensive market research should be undertaken beforehand to determine if there would be enough demand for the new product. Only if sales are going to be present to cover costs should MPP go ahead with producing and launching the new product. Not only this but due to being technologically advance, MPP could use price – skimming for the new product to establish it as a high – quality one off product. MPP should develop strong brand image and brand loyalty for it. It should consider the promotion that should be used both informative and persuasive and should consider the promotional elasticity as well as the methods to be used for it. Finally the distribution should be analysed. It should be extensive so as to deliver the product to the customers on time. All of these factors have to be considered, their costs and all other aspects.

(d) MPP is a multinational company operating in 4 different countries with over 2000 employees in all the factories. It follows the rules and regulations of all countries in each of its respective factories for all aspects of operating including human resource management. This means that currently it has different working conditions, pay and reward systems for each of its factories depending on the rules of the country where it is located.

Using different benefits for factories allows MPP to keep its costs to a minimum allowing it to keep profits maximum. Also none of the pressure groups could complain as MPP follows all government regulation and requirements such as minimum wages, etc. It is also providing all necessary non-financial motivators and propose working conditions. Therefore, motivation should also not to be a problem. However, due to increasing globalization, the employees in all factories may become aware of the working conditions and benefits given in other factories which may make the under-privileged workers feel dissatisfied. The employees may feel that they are not treated fairly and may be a cause of discontent. Thus making same laws for all factories would give MPP a reputation of fair treatment, causing workers to feel greater motivation. It would allow employees to move freely from one country to another country.

However, such a step would have its own problems. The employees who originally had better benefits would feel discontent if everyone got the same benefits and working conditions as the purchasing power of money is different in separate countries. Also, the presence of trade unions greatly affect the working conditions that could be negotiated in favour of workers. Thus country with a stronger trade union would have much better standards of equipment, hygiene, pay systems, pay-scale, fringe benefits, minimum wages and maximum working hours for its workers. These wide differences would cause may or

difficulties. Information of same laws as providing high levels of pay and conditions in all four countries could cause high costs to be incurred which could greatly reduce profitability of firm.

Thus, it may be an unnecessary cost to introduce same working conditions and benefits in all countries. More practical would be to follow rules of each government. However, if a certain country (e.g. developing) has very low standards, then this could be provided with better conditions than minimum requirement. This would be more ethical and provide a greater motivation and sense of loyalty.

Ans.2.

- (a) (i) Secondary market research is also called desk research which is pre-conducted or pre-existing research. It is the use and analysis of the secondary data which was originally collected by another person or organization often for a different purposes. It is secondary research that should be undertaken first when a business is doing marketing research as it has lower costs, saves time and helps in giving direction for the primary research. Examples include internal company records, sales trends, stock movements, newspapers, magazines, govt. publications, libraries, economic surveys, etc.
- (ii) Human resource management (HRM) is the modern term used for personnel department of the organization which includes a wide range responsibilities such as planning recruitment, selection training and appraising employees in order to increase their efficiency so that they can work together to achieve the organization goals. HRM is not the duty of a particular department but it is the responsibility of all the managers and also includes motivating and developing employees.

(b) (i) % change in total revenue =  $\frac{\text{New Revenue} - \text{Old Revenue}}{\text{Old Revenue}} \times 100$

$$= \frac{100m - 60m}{60m} \times 100$$

$$= \frac{40}{60} \times 100$$

$$= 66.67\%$$

- (ii) On News Ltd. currently only has secondary research data national sales of magazine which shows an increasing trend. However, this is not enough detail before deciding to produce the monthly magazine. Other information through primary research such as questionnaires and interviews is required. This would include the type of content to be included in magazine, i.e. what readers wish to read in the magazine. Also the number of pages to be given to each subject area as well as the prices that potential readers are willing to pay for it. Also required are details of competitors what they charge, their costs, their profits, etc. Then the costs of producing magazines should also be researched upon as well as the size of the potential target market. Further secondary research such as population size, distribution and income also has to be researched upon.

- (c) Lucky has HRM as her main management function. Changing from a daily local newspaper printed in black and white to producing a colored monthly magazine would cause several human resource problems. Firstly, the skills required from employee producing a newspaper are different from that of magazine. Therefore, employees would feel insecure as to their jobs as they may be afraid that they could not learn the new skills. They would fear being made redundant and would therefore, be resistant towards change of the newspaper to magazine. To overcome this fear which causes demotivation and disruption lucky could begin training programmes to train employees for the new skills. This would better enable them to feel secure which according to Maslow's need Hierarchy is one of the lower level needs required for motivation.

Another HRM problem could be redundancy as there would be certain jobs which would no longer be required while technological changes would open new job options. Workers would again feel insecure and demotivated to see their colleagues lose their jobs, there would be

workforce planning problems as new workers would have to be selected, recruited, trained and settled into the organization. This would include drawing up job specifications, sending job advertisements to different newspapers, etc. as according to the new jobs that have been created. Finding quality designers, editors and other skilled staff trained in latest technology would also be a problem. To overcome these problems, lucky may need help from specialist HR managers. She could also hold frequent discussion and meeting and involve staff in the changing process so as to help them feel involved and show confidence in them. This would allow staff to give feedback. Staff could be given option of voluntary redundancy in form of golden handshakes and help them find other employment which would maintain high motivation levels and save reputation of Our News Ltd as well avoid conflicts with unions though there would be higher costs.

- (d) Replacing daily newspaper with the monthly magazine would be a very important decision for Our News Ltd. The secondary research information shows an increasing sales and demand trends for magazines. Therefore changing to it would allow Our News to increase sales and given them a chance of higher profits which shepherd being finance manager is very optimistic about it. This change would allows the organization to become more competition as it would have to invest in new technology, update its machinery and thus efficiency and productivity of the capital would be improved.

However, there would be staffing issues that have to be considered. The skills required from reporters, designers would be different for a magazine as compared to the daily newspapers. This would mean additional costs for finding workers for vacancies arising from the change. Nevertheless in today's competitive environment, having advance technology is essential for survival and being competitive is necessary to maintain an upper edge against competitors.

There doesn't seem to be a future in daily newspapers the sales and total revenue is on the decline due to which Our News Ltd. would face a loss or decreasing profits in the current operations. On the other hand, the is market growth in the magazines industry which apparently has a healthy future with chances to benefit from greater profits and economies of scale due to higher sales. Other possibilities should also be considered e.g. instead of paper newspapers, online newspapers could also be begun. This would have its own costs but would generate to a lot of revenue.

In the case study, there is not enough informations as to the demand for the product, the costs incurred, the price which would be charged, the price elasticity of demand of both the daily newspaper and monthly magazine, the financial state of the business, etc. For this additional market research has to be conducted. From the secondary data related to sales and total revenue, it seems like a good decision. However, the additional research is required to give a balanced judgement on this issue especially the costs.

- 1.a.(i) Profit margin is the profit of an organization or a business compared to its sales revenue. It is expressed as a percentage of total sales and the formula is:

$$\text{Profit margin} = \frac{\text{Pr ofit}}{\text{Sales Re venue}} \times 100$$

It is very difficult to give any optimum profit margin as it is dependant upon the nature of the industry or the product being made. Essential goods have a smaller profit margin while luxury goods have a greater margin.

- (ii) Organisational structure is the internal framework (formal) of a business that shows the way in which management is linked together and how authority is transmitted. This structure is either created first or developed afterwards. It shows the formal channels of communication and helps employees to see and understand their positions in an organization. It would also show the span of control and the chain of command alongwith the relation between the different departments or sections of the organization.

- b(i) Critical path: BCDI

Project duration: 25 weeks

- (ii) The critical path shows the most important activities which must be completed on time to finish the project. The duration of critical path is same as the maximum time allotted by the government for completion of each job. Therefore, Baljir has no scope for any delays and all



critical activities have to be carefully accounted for. On the critical activities there is no float, therefore Baljir now knows which activities could be speeded up in case of an unexpected delay. E.g. in case activity D is delayed, then activity F could be speeded up by moving resources from F to D so as to move D to be completed on time. On F, there is a float time which could be utilized effectively.

- (c) Stakeholders of any business are the individual or groups who have a direct or indirect interest in the running of the business. Baljir's stakeholders are the government, suppliers, employees & supervisor, owners of the site, the potential customers of the houses, the local community and Baljir himself.

Baljir and the suppliers and may be the owners of the site would want greater profits. Actually only Baljir being the owner would seek profits as he being the sole trader gets to keep all his profits. The suppliers would want maximum payments for their suppliers which greater profits would help ensure as well as payments on time. The owner of the site may charge a percentage of the profit as a rent of site. However, Baljir would also want a secure income through there being enough customers for houses so government gives a good, sound and profitable contract to Baljir. The government would want the houses to be of good quality with a reliable sewage, electrical gas and water supply system to satisfy the general public. It would also have political pressures to get the house completed on time. The potential customers, those seeking housing would want the best quality residence at the lowest price which would conflict Baljir's objectives of lowest cost and higher profits. Then the employees would want job security and good wages as well as safety equipment, safe and hygienic working conditions. This again leads to higher costs and lower profits. The local community would want good conditions of workers, clean construction work which does not give rise to pollution or cause any other health problems.

Baljir's objectives would greatly be adversely affected by the government desire of low cost housing of good quality and quick construction. Also the pressures from employees would greatly conflict Baljir's objectives. It would be better to negotiate with government as after all the contract is being offered by the government and if its objectives are not met then the government could go to another builder.

- (d) Business expansion is the increase in size of a business. It has several problems and advantages. Baljir is the sole trader of a construction business with 5 workers and one supervisor. The contract than may be offered would require additional staff to be hired and investing more capital. It is quick expansion as he is going to totally different marketing is market development.

Currently Baljir and his supervisor deal with problems as they occur which is a big management planning weakness. Problems should be planned and corrected beforehand to avoid delays and unnecessary difficulties. For this there has to be stronger management system which efficiently plans, controls, co-ordinates and directs resources. This is required for success of a larger business. Also, at present job production is used to complete each luxury house one at a time. However, the contract requires expansion which needs the batch production methods to be used. There the current employees would have to be retrained and the new employees should also know how to construct using batch production to develop a greater number of houses. Baljir would have to change his management style to a more delegating and democratic leadership.

Moreover, suppliers may have to be increased to provide the larger supplies of materials for the buildings. Co-ordination with suppliers would be more difficult.

However, there are chance of benefiting from economies of scale due to bulk buying. Also a proper stock control systems would have to be established and implemented as the contract for a large number of houses instead of a few luxury houses requires a large number of stock.

Then being a sole trader, the major problem is raising enough capital which is very difficult. More capital is required to buy the larger quantities of stock, pay the more skilled employees, more supervisors, workers and managers. There would also be a change of organizational structure and would incur huge costs.

Nevertheless, there is quick expansion due to this contract and in case of success, there would be very high returns and profits. Also, the contract is fixed and provides a source of

guaranteed income. It would also be a good experience for the future where by the trained staff would now be present for other large projects.

Q.2. Ritean Clothes is missing?

Overall register maintenance & assignments = "A"

Eid

→ Bruce Jewells 3 Qs

→ Peter Stimpson – Whole Chapter – Example

→ Break – even Qs from Bruce Jewells (odd only)

→ Monthly Test on Wednesday

→ Organizational Structure

→ Investment Appraisal

→ Ratio Analysis

→ Decision – Trees

