X234/301

NATIONAL
QUALIFICATIONS
2008

WEDNESDAY, 14 MAY
9.00 AM – 11.30 AM

BUSINESS MANAGEMENT HIGHER

Candidates should attempt **all** questions in Section **One** and **two** questions from Section **Two**.

Read all the questions carefully.

100 marks are allocated to this paper.

50 marks for Section **One** and

50 marks for Section **Two**.

Answers are to be written in the answer book provided.

SECTION ONE

This section should take you approximately 1 hour 15 minutes.

Read through the following information, then answer the questions which follow.

Lees' OF SCOTLAND

Waverley BAKERY

SWEET TASTE OF SUCCESS SPOILED BY SUPERMARKETS

Background

Lees' main business is the manufacture of confectionery and bakery products. It can trace its roots back to 1931, when confectioner John Justice Lees allegedly botched the formula for making a chocolate fondant bar and threw coconut over it in disgust, producing the first macaroon bar. Its customers include major food retailers, food service and catering companies and other food manufacturers. It operates from 2 modern manufacturing sites in Coatbridge and Cambuslang. Lees now employs 155 staff at its Coatbridge plant, along with around 60 at the Waverley Bakery in Cambuslang, which Lees acquired for £600,000 at the beginning of 2003. Macaroon bars and snowballs have been adored by Scots for 75 years—but Lees was going nowhere until former Bell's whisky boss Raymond Miquel became Managing Director and saved the company from bankruptcy.

In recent times supermarkets have put the squeeze on Lees, but the snowball maker still plans to enter more overseas markets and expand through takeover bids. Increases in labour, transport and raw material costs cannot be passed on to consumers because of cut-throat price discounting among the major supermarket chains. Raymond Miquel said "The multiple retailers just won't accept price rises and haven't done for several years, which means we have to keep looking to new markets and new products."

The company experienced some bad times in the 1980s when sales dropped to an all time low. In 1993, the company had a balance sheet worth £350,000 and almost folded with debts of over £5 million owed to suppliers, the Clydesdale Bank and the Inland Revenue. The economic situation at the time didn't help with a worldwide recession. However, they have turned themselves around and built a new factory. Now the products are not only doing well in Scotland but are being sold in the USA, the Netherlands and Ireland. Even the King of Tonga can't get enough of them! This has resulted in a number of supermarkets and confectioners running out of stock of Lees Macaroon Bars as the company has had problems coping with increased demand.

Modernisation and transformation

Miquel saved Lees from liquidation in 1993 when he acquired the company from Northumbrian Fine Food for around £1 million. In 1993, Lees had a number of unprofitable product lines which were eventually shed by Miquel. In the 12 intervening years, however, the company has transformed itself—announcing in 2005 a rise in annual profits of 5 per cent and sales up by 9 per cent. In comparison, in 2002, the company saw sales rise but profits fall.

Miquel, by his own admission, inherited 2 run-down factories producing a handful of old-fashioned products and a very nervous workforce who were concerned for the future of their jobs. Miquel felt that many of the operations aspects of the business were in a mess. His first decision was to tackle the firm's unprofitability. Many senior managers were not performing to the standards that Miquel expected and as a result were dismissed from their posts. Next to be targeted by Miquel was the outdated 1930s style packaging. Despite working hard, the sales staff were not making enough of a profit margin for the company. This was addressed by recruiting new sales staff and training existing staff.

Miquel describes his style of management as "a bit more hard nosed" than most managing directors and this has caused conflict with some of the long term managers at Lees.

The present situation

Since Miquel took control, sales of macaroon bars have surged, and Lees now sells 2·5 million every year. This represents more than 40 per cent of the company's total confectionery sales. No less popular are Lees snowballs, now selling more than 50 million a year in the UK.

Today Lees is sitting on a massive £6 million in reserve, has no debt and a large overdraft facility. It plans to expand the business overseas and to target other businesses for takeover. Miquel forecasts all kinds of possibilities to diversify, such as restaurants, upmarket tearooms and retail outlets. However, Miquel believes this will be a relatively slow process. Lees will only acquire companies which will add to their profitability, giving them further opportunities to expand in the food industry.

Lees has now floated on the stock market, just over a decade after it stared liquidation in the face. It can only be a matter of time before Miquel's Lees story amazes further!

Adapted from *http://thescotsman.com/business/*

Marks

QUESTIONS

You should note that although the following questions are based on the stimulus material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.

Answer ALL the questions.

1. Identify the problems faced by Lees. You should use the following headings. (Please identify problems only, solutions will not be credited.)

- Marketing
- Human Resource Management
- Finance
- Operations **10**

2. Organisations often use an entrepreneurial structure. Explain the advantages and disadvantages of an entrepreneurial structure. **4**

3. Lees could use the Internet to market their brand name to overseas customers.

Describe the benefits of using the Internet to market products. **5**

4. Lees' Board of Directors has identified growth as a strategic objective.

(*a*) Explain internal factors which could be taken into account prior to an organisation setting strategic objectives. **4**

(*b*) Describe **3** tactical decisions that could lead to growth. **3**

5. Lees' management use ratios to analyse financial data.

(*a*) Describe ratios which could be used to ensure appropriate levels of profitability and liquidity are maintained. **5**

(*b*) Describe the limitations of using ratio analysis. **3**

6. Lees changed the packaging of their products which made them more eye-catching and appealing to consumers.

Explain **5** other methods of extending a product's life cycle. **5**

7. Wholesalers buy goods in large quantities directly from manufacturers.

Discuss the advantages and disadvantages to a manufacturer of using a wholesaler. **5**

8. Discuss the role of appraisal and its ability to motivate staff. **6**

(50)

[*END OF SECTION ONE*]

SECTION TWO

Marks

This section should take you approximately 1 hour 15 minutes.

Answer TWO questions.

1. (*a*) Describe how both horizontal and vertical integration could allow an organisation to become even larger and more profitable. **5**

(*b*) Describe methods a limited company could use to finance a successful takeover. **4**

(*c*) Explain why firms use loss leaders as a pricing tactic. **3**

(*d*) Describe the methods available to a Public Relations department to improve the image of an organisation. **5**

(*e*) Many organisations group their activities by function.

Discuss other methods an organisation could use to group their activities. **8**

(25)

2. (*a*) Employees may undertake industrial action in an attempt to force employers to meet their demands.

Describe types of industrial action that employees could take. **4**

(*b*) Explain possible effects that prolonged industrial action could have on an organisation. **5**

(*c*) (i) Distinguish between delayering and downsizing. **3**

(ii) Explain the benefits to an organisation of using outsourcing. **4**

(*d*) ICT is used to help head office communicate effectively with branches in remote areas of the country.

Explain how modern technology can be used to communicate effectively within an organisation. **6**

(*e*) Describe **3** types of production. **3**

(25)

3. (*a*) Describe how stakeholders could make use of financial information provided by an organisation. **7**

(*b*) Describe **4** causes of cash flow problems. **4**

(*c*) (i) Identify and explain **3** economic factors that can affect the profitability of a business. **6**

(ii) Describe **4** other external influences that can affect the success or failure of a business. **4**

(*d*) Discuss the advantages and disadvantages to organisations such as Asda of selling own brand products. **4**

(25)

[Turn over

Marks

SECTION TWO (continued)

4. (*a*) Organisations spend vast sums of money developing new products.

Describe the stages that take place before a new product is launched onto the market. **6**

(*b*) Explain the advantages to an organisation of using market segmentation. **4**

(*c*) Explain the purpose of the Advertising Standards Authority. **2**

(*d*) (i) High quality and reliable information is essential if a manager is to make effective decisions.

Describe the characteristics of high quality, reliable information. **4**

(ii) The Data Protection Act 1998 is the legislation which covers information stored on computers about individuals. Describe the main features of the Data Protection Act. **5**

(*e*) Explain the role of testing in the selection of new staff. **4**

(25)

5. (*a*) (i) Describe how the introduction of Quality Management (formerly TQM) techniques could ensure a quality product or service. **5**

(ii) Explain how the Human Resource Department can help to ensure that a quality product or service is produced. **4**

(*b*) (i) Describe the JIT stock control system. **2**

(ii) Describe the advantages and disadvantages of using such a system. **5**

(*c*) Describe how a manager could evaluate the effectiveness of a decision. **4**

(*d*) Describe the advantages and disadvantages of a wide span of control. **5**

(25)

[*END OF QUESTION PAPER*]

ACKNOWLEDGEMENTS

Section One—Picture of Logos, 'Lees of Scotland' and 'Waverley Bakery'. Photographs from *Lees Confectionary*. Published by Lees Food Plc. Reproduced by kind permission of Lees Foods Plc.

Section One—Article adapted from *Sweet taste of turnaround success* from *The Scotsman*, 22 May 2006 by Alistair McArthur. Published by The Scotsman Publications Ltd. Reproduced by permission of The Scotsman Publications Ltd.

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