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# BUSINESS STRATEGY

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This paper is made up of **THREE** questions (100 marks).

1. Ensure your candidate details are on the front of your answer booklet. You will be given time to sign, date and print your name on the answer booklet, and to enter your candidate number on this question paper. You may not write anything else until the exam starts.
2. Answer each question in black ballpoint pen only.
3. Answers to each question must begin on a new page and must be clearly numbered. Use both sides of the paper in your answer booklet.
4. The examiner will take account of the way in which answers are presented.
5. When the assessment is declared closed, you must stop writing immediately. If you continue to write (even completing your candidate details on a continuation booklet), it will be classified as misconduct.

## IMPORTANT

Question papers contain confidential information and must NOT be removed from the examination hall.

You **MUST** enter your candidate number in this box.

**DO NOT TURN OVER UNTIL YOU ARE INSTRUCTED TO BEGIN WORK**

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- 1 Assume that it is now mid-20X4.

Newsville plc (Newsville) operates a regional newspaper, The GC Voice, which covers the areas in and around, Granchester, a UK city with a population of 500,000 people.

### **Company background**

The GC Voice has a geographical target market of individuals living within 25 miles of Granchester, which comprises about 800,000 although the population has been slowly declining.

The GC Voice is published each evening, six days a week (excluding Sundays) and, other than in London, it is one of the largest and oldest, regional daily newspapers. In common with similar regional newspapers, sales of The GC Voice have declined significantly in recent years and are currently 105,000 copies per day. The cost to consumers has been constant for the past four years at 40p per copy and retailers are charged on average 35p per copy.

The major operations at The GC Voice include: editorial (ie, journalism), printing, marketing and administration. The printing resources are idle for parts of the day, but are fully utilised in the hours before the newspaper goes to print. Distribution, in common with most other newspapers, is outsourced to specialist distributors, which need to accommodate tight deadlines following each print run.

The main sources of income are revenues from the sale of the newspapers and from advertising in the newspaper.

The GC Voice has a website which gives details of the paper and contacts for stories or adverts, but it does not have website subscribers or an electronic version of the newspaper.

### **Rival local newspapers**

There is no other major evening newspaper in Granchester, but there is a local morning newspaper, called The World operated by a rival company. The World is selling 24,000 copies per day at a price to consumers of 40p. In the past few months, however, a limited number of copies of The World have been distributed free of charge, at railway stations and in business districts. The aims of providing some free copies are: to increase general circulation in order to encourage advertisers; to increase circulation specifically amongst high income groups; and to bring The World to the attention of people who do not currently buy it.

There are also a number of low circulation, local newspapers in Granchester, normally with a special interest perspective.

### **Industry background**

The UK newspaper industry can be analysed in a number of different ways. National and regional newspapers have very different geographical target markets with the largest national papers having a daily circulation of between 2 and 3 million copies. The largest regional newspaper is in London, with a daily circulation of over 300,000 copies. Other leading regional newspapers have circulations of around 100,000 copies.

Another way of analysing the industry is by timing of publication, consisting of: morning, evening and Sunday papers. Alternatively, a distinction can be made between 'paid for' newspapers and 'free' newspapers, the latter depending entirely on advertising revenues.

The UK newspaper industry currently generates revenues of around £8,000 million per annum (£4,200 million national papers, £3,800 million regional papers).

62% of industry revenues is from advertising and about 38% from sales of newspapers. This mix differs significantly, however, between the nationals and the regional papers, which generate about 45% and 80% respectively of their revenues from advertising.

The regional newspaper sector is very fragmented, with both large and very small operators. A recent survey found that there are approximately 1,300 regional press titles in the UK. These included 110 dailies (96 are paid-for and 14 free), 13 paid-for Sunday titles, 9 free Sunday newspapers, 522 paid-for weekly titles and 647 free weeklies.

Circulation has been falling in the industry for decades, but the past few years have been particularly difficult times. The growing influence of online news media and 24-hour satellite TV news, have meant that sales of newspapers have fallen at an increasing rate (see **Exhibit 1**). In response to online competition, many newspapers have set up an electronic version.

Competition for advertising has arisen from the growth of online communications, but also from free newspapers and other forms of media. Overall, the newspaper industry has suffered a 4.4% decline in advertising revenues this year, resulting in fierce competition within the industry.

The growth of free newspapers has been another of the major features of increased supply in the industry. The largest regional free newspapers have distributions of between 200,000 and 300,000 copies.

Following the decline in circulation and continuing loss of advertising revenues, Newsville held a series of strategy meetings to discuss the future of the business.

### **Strategic meetings**

The **finance director** commented: 'Things have been pretty bad, but they could have been even worse. As yet, there has not been any serious threat of the launch of a free newspaper in Granchester. I would be in favour of us starting our own free newspaper, which we could distribute with a guaranteed circulation. This would improve advertising revenues and discourage anybody else entering this market and threatening our core business. If we launched a free morning daily or a free weekly publication it should not harm our existing sales of The GC Voice.'

The **editor** had a different view: 'Circulation has dropped. We need to ask ourselves why this has happened and the extent to which it is due to internal factors as well as market conditions. Publishing The GC Voice is what we know and what we are good at. We just need to put more resources into journalism, to make the content of the paper a little better. However, we need to do market research to find out what people want to read and how much they would be willing to pay for the newspaper. We need to sell more good quality newspapers to

distinguish ourselves from the free-copy, low quality journalism – and the price needs to be increased to reflect this.'

The **marketing director** had a different perspective: 'About 80% of our revenue comes from advertising. We should decrease the price of The GC Voice to 20p per copy. We may make less revenue from newspaper sales but, if we increase our circulation, we will make more from advertising.'

### **Two strategic proposals**

After much discussion two potential strategies emerged. Newsville could undertake both strategies if this is considered desirable.

#### **Strategy 1: Launch a free local newspaper**

Maintain The GC Voice at its current price and adopt the finance director's proposal of launching a free local morning daily newspaper.

#### **Strategy 2: Launch a new magazine for 16- to 18-year olds**

There is a gap in the national market for a magazine aimed at 16- to 18-year olds still in school or college. The proposal is to publish a free magazine, Eighteen+, for this group each month. Articles could include: advice on university applications, finding jobs, exam tips, advice pages, articles from exam boards and examiners and more general older teenage issues. Evidence suggests that advertisers would wish to target this age group of above average intelligence students, with high potential future earnings. There is currently no such broad based magazine of this style in the market. The target market consists of about one million young people in England and Wales, and Newsville would aim to provide each of them with one copy of the magazine. The distribution would be in batches to schools and colleges who would be requested to give the magazine to each individual student.

#### **Exhibit 1 – Circulation data (average copies per day)**

	<b>20X1</b>	<b>20X2</b>	<b>20X3</b>	<b>20X4 (estimated)</b>
The GC Voice	129,000	125,000	115,000	105,000
The World	28,000	25,000	23,000	24,000
Regional newspaper industry*	1,397,000	1,299,000	1,216,000	1,165,000
National daily newspaper industry	12,152,000	11,790,000	11,496,000	11,148,000

\* The 'regional newspaper industry' figures are a selected portfolio of 12 leading evening daily regional newspapers from across the UK.

## Exhibit 2 – Four-year operating profit schedule for The GC Voice

	20X1	20X2	20X3	20X4 (estimated)
	£m	£m	£m	£m
<i>Revenue</i>				
Sales of newspapers	16.0	15.5	14.6	13.6
Advertising	64.0	60.5	55.5	50.3
	<u>80.0</u>	<u>76.0</u>	<u>70.1</u>	<u>63.9</u>
<i>Operating costs:</i>				
Editorial	22.0	22.0	21.0	20.5
Printing	25.5	24.5	23.5	22.5
Marketing	7.5	7.5	7.5	7.5
Other	5.0	5.0	5.0	5.0
	<u>60.0</u>	<u>59.0</u>	<u>57.0</u>	<u>55.5</u>
Operating profit	<u>20.0</u>	<u>17.0</u>	<u>13.1</u>	<u>8.4</u>

### Requirements

- 1.1 Using the data and other information provided, evaluate the competitive position and performance of The GC Voice over the period 20X1 to 20X4. Indicate any additional information that you would require for a more complete assessment. For this purpose, ignore the two strategic proposals. **(12 marks)**
- 1.2 As part of a SWOT analysis, identify and clearly explain the threats to Newsville. (You are not required to address the other three aspects of a SWOT analysis.) Ignore the two strategic proposals for this purpose. **(5 marks)**
- 1.3 Evaluate both sides of the argument about pricing highlighted in the discussion between the editor and the marketing director. Ignore the two strategic proposals for this purpose. **(7 marks)**
- 1.4 Write a memorandum, as an external consultant, which evaluates the two strategic proposals under each of the following headings:
- (a) Market research
  - (b) Strategic impact of the proposals
  - (c) Risks of the proposals
- (16 marks)**

**Total: 40 marks**

2 Assume that it is now October 20X7.

Multi-Services Ltd (MS) offers building services including: building, plumbing, joinery and electrical work. Jack Fegan and Sean Phillips are the only shareholders, each having a 50% holding.

### **Company history**

Jack Fegan started Fegan building services (a sole trader) offering building services to householders in the North West of England over 20 years ago. While Fegan's prices were above the industry average for a small firm, customers were obtained through a reputation for good workmanship, use of high quality raw materials and reliability. Larger building firms, with specialist skills, charged more than firms like Fegan, but they tended to produce higher quality work. Very small building firms, with one or two employees, charged significantly less than Fegan, but the quality of their work was variable and, in many cases, poor.

The business grew rapidly and by 20X1 Fegan had 50 employees consisting mainly of builders and joiners. Each employee was charged out to customers at £150 per day, with about 250 chargeable days per employee, per year, including overtime days.

### **The merger**

In 20X1 Jack met Sean Phillips who owned a business offering skilled plumbing and electrical services using qualified tradespeople. Sean had 75 skilled employees, all charged out at £200 per day, plus travel costs, each with about 250 chargeable days per year. Almost all of Sean's trade was as a subcontractor for a large building company called Henton plc (Henton).

In 20X1 Jack and Sean decided to merge their businesses to form MS. The new larger company would be able to offer a wider range of services both to private householders and to Henton and have greater market visibility. MS adopted the pricing and quality policies previously used by Jack and Sean.

MS offers a comprehensive range of household building services with a reputation for good quality. MS policy is to set prices that are perceived to be fair and transparent in order to avoid the public perception that some tradespeople charge excessive prices for poor quality work. Prices charged to Henton were initially higher than those charged to individuals, because Henton work is subject to review and requires rapid response to urgent requests.

The private household business remained in the North West, but work for Henton was over a wider geographical area. The reason for this was that Henton plc was willing to pay travel and accommodation costs for MS employees, while individual householders would only use local tradespeople. Most MS tradespeople spent some time on Henton assignments and some time on individual household assignments to ensure all staff had a breadth of experience. MS normally allocated their best employees to the Henton contract to ensure quality. These were also the most flexible employees who were willing to travel, and therefore spent a large majority of their time working for Henton.

In 20X6, MS appointed a new marketing director, Jane Wise, to manage the customer relationship with Henton and promote business to individual households.

By 20X7 MS had grown to 200 tradespeople. In terms of revenue generated and prices, the Henton contract had remained constant at the 20X1 levels, as had the number of tradespeople assigned to the Henton contract. The daily charge-out rate to individual households had, however, increased to £200. Staff costs are £80 per labour day, and raw materials costs are 25% of revenues earned at the current pricing levels. MS's fixed costs are £2m per year.

### **The Henton contract**

In November 20X7 MS received the following email:

**To:** The Board of Multi-Services Ltd  
**From:** Debbie Cheng, Director, Henton plc  
**Date:** 30 November 20X7  
**Subject:** Procurement services

Let me introduce myself. I am the new procurement director of Henton. I have undertaken a review of all our subcontracting arrangements and from 1 January 20X8 we will begin to use our own employees for all building activities. We will gradually take on more staff throughout 20X8 to fully implement this strategy.

If, however, you were willing to reduce your prices from £200 to £150 per day we may be willing to offer you some work during 20X8 while the transition takes place. Any work we offer you, will reduce gradually throughout 20X8 and from 1 January 20X9 we will not require any services from your company.

Regards,

*Debbie Cheng*

Henton plc

### **Board meeting**

A meeting of the directors took place to discuss the situation.

**Sean Phillips** opened the conversation: 'What are we going to do? I have built my whole business around serving Henton, we have never let them down, we have charged reasonable prices and now this happens. I blame the new procurement director – this would never have happened with the previous director. We were good friends and we knew each other socially as well as professionally.'

**Jack Fegan** interrupted: 'The point is that we have a problem. We need to accept the loss of Henton and do what we can. In just over a year, a large proportion of our current employees will have nothing to do – and even that is a best case situation if we reduce our selling prices drastically. We need to increase sales or downsize our staff quickly, but I am not even sure that we can afford the redundancy payments at the moment.'

**Jane Wise** added: 'There is not enough potential in the local market to expand sales sufficiently to replace the Henton work within 12 months. On the one hand, we do not want to lose reliable employees with the right skills, as they are hard to find. Nevertheless we cannot pay them to be idle for several years until we grow the business. I think we need to keep downsizing to a minimum through cutting our

prices to accelerate growth. However, we also need to cut our costs by buying cheaper raw materials, freezing the wages of those employees remaining with us, and cutting fixed costs by streamlining head office and support services. This may lead to some inefficiencies but, as I see it, we have little choice.'

## **Requirements**

2.1 So far as the information permits:

- (a) Explain the financial and non-financial impact of the loss of the Henton contract for MS.
- (b) Advise on the factors that the company should consider in deciding whether to accept the suggested price reduction for Henton for 20X8.

**Note.** For this purpose ignore Jane Wise's suggestions. **(14 marks)**

2.2 In relation to the directors' suggestions for managing the loss of the Henton contract:

- (a) Discuss the ethical issues associated with the proposed treatment of MS's employees.
- (b) Explain the change management issues associated with downsizing, and how these problems may be mitigated.
- (c) Evaluate Jane Wise's suggestions to reduce selling prices and to cut costs.

**(20 marks)**

**Total: 34 marks**

- 3 Orange Juice Division (OJD) is a UK division of Cappen plc (Cappen), a large, international food and drinks manufacturer.

### **Company and divisional background**

OJD imports oranges, processes them and packages the juice for supermarkets and other retailers throughout Europe. Cappen is a divisionalised organisation with each division having responsibility for a product type or brand. Divisional managers are required to provide head office with a monthly analysis of revenue and operating costs. Capital expenditure and other key decisions are taken centrally and, so long as managers satisfy their budget targets, they are left to day-to-day operations without interference. There are few incentives or expectations at divisional level to innovate or develop new products. All new initiatives come through central management at head office. The key services: finance, human resources, IT, R&D and marketing, are all operated and controlled centrally.

OJD products range from high quality fresh orange juice with a short shelf life, to lower quality concentrate juices with much longer shelf lives. They are sold under a variety of well-known brand names. OJD is one of the market leaders in the industry, being the third largest producer of packaged orange juice in the UK. Packaging is in plastic or lined-cardboard containers of one or two litres. Most consumers are families shopping at supermarkets. Revenue generated by the division is about £40m per year.

### **A new development**

A new, young head of OJD, Helen Huang, appointed last year, was already becoming frustrated at the lack of interest by head office in any ideas she had for development of the division. At a monthly meeting between Helen and Head Office Management, she proposed a new development:

'I met with the owner of a small business last week. His name is Adam Highton and I would like you to meet him.'

The meeting was called, and Adam explained his ideas. 'I own a company, CaféO Ltd, which operates a chain of 20 cafés. We are known for selling a range of premium juices, made from a variety of fresh fruits. We have developed a new mixed fruit drink product, JudoJuice, that is slightly fizzy. This is produced at our central factory and distributed to our cafés freshly made each day, along with our other juices. It is really selling well and I know there is a wider retail market. Several supermarkets are already interested if we can get larger scale operations and packaging correct. Some independent market research that I had carried out is also very favourable.

There are major markets for JudoJuice as a high energy sports drink and as a kids' drink. I think it should be packaged in small 125 ml containers for one quick drink and the container, which is biodegradable, would be part of the marketing. We would sell JudoJuice in batches of eight containers (to make up a litre in total), not individually. Unfortunately I have had trouble getting suitable containers as they need to cope with fizzy drinks that may create pressure when shaken. At the moment, I cannot quite get the design to work properly, despite buying in some assistance, and it is getting costly for me to create a final operational version.

I know that I need help as I am not big enough to develop this product properly, nor do I have the necessary expertise. However, it is my preference not to work as an employee of Cappen. I am afraid I am not driven by the pay or position that working for Cappen might bring. I am, however, flexible on the way the co-operation is structured, but I have several criteria that I would need satisfied:

- CaféO Ltd and its café chain is to remain unaffected by any co-operative arrangement over JudoJuice.
- I am not disclosing the JudoJuice recipe without firm contractual guarantees and a viable solution to the container problem.
- I need either to have some control of the joint operations or at least have my idea protected by having rights over how the product is profitably developed and exploited over time.
- I also need to be assured that the financial performance of this product can be separated from other Cappen products, so we can determine the sharing of profits fairly.'

Helen joined in: 'I have seen how well these drinks sell in several of Adam's cafés and it would add to OJD's product range. I know there are experts in container design in other divisions in the Cappen group, but the present organisational structure does not encourage this type of cross-divisional co-operation. Also, there are no incentives for our managers to take on this project at the moment, so they are just not listening when I talk to them.'

### **Requirements**

3.1 Explain the internal factors which may limit Adam's ability to successfully develop, produce and sell 'JudoJuice' without co-operation from an external partner.

**(9 marks)**

3.2 As a senior manager within Cappen, write a memorandum to the board which:

- (a) Explains the advantages and disadvantages of the current organisational structure of Cappen.
- (b) Assesses the benefits and problems to Cappen of working with Adam in developing JudoJuice.
- (c) Explains and evaluates the desirability of a joint venture with Adam to produce and sell the JudoJuice product. In so doing, explain the nature of a feasible joint venture agreement and the extent to which it can satisfy Adam's criteria. Assume for this purpose that the market research is correct and sales of 'JudoJuice' are likely to be significant.

**(17 marks)**

**Total: 26 marks**



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