

Paper 3 - Mark Scheme

Premier Prepared Foods

| Q | | Total | Content | Application | Analysis | Evaluation |
|---|--|-------|---------|-------------|----------|------------|
| a | From the data provided for 2008, calculate one measure of staff retention and one measure of labour productivity | 4 | 2 | 2 | 0 | 0 |
| b | Describe two benefits of an effective induction training programme for PPF | 4 | 2 | 2 | 0 | 0 |
| c | Analyse whether the increase in unit costs in 2007 and 2008 might reduce the competitiveness of PPF | 8 | 2 | 2 | 4 | 0 |
| d | Evaluate the main problems that PPF will experience from high levels of staff turnover | 11 | 2 | 2 | 3 | 4 |
| e | Discuss how PPF could “significantly improve” its return on capital in order to achieve the objective of 7% | 13 | 2 | 2 | 5 | 4 |
| | | 40 | 10 | 10 | 12 | 8 |

Brunswick Building Supplies

| Q | | Total | Content | Application | Analysis | Evaluation |
|---|--|-------|---------|-------------|----------|------------|
| a | Explain, using an example from Figure 1, the terms “span of control” and “organisational hierarchy” | 5 | 3 | 2 | 0 | 0 |
| b | Analyse two ways in which BBS directors could communicate more effectively with depot staff | 8 | 2 | 2 | 4 | 0 |
| c | Evaluate the advantages and disadvantages of BBS taking a more aggressive approach to managing cash flow | 12 | 2 | 2 | 4 | 4 |
| d | To what extent do you agree that depot managers should have the freedom to make “local marketing decisions”? | 15 | 3 | 3 | 3 | 6 |
| | | 40 | 11 | 9 | 11 | 9 |

Total marks

| Q | | Total | Content | Application | Analysis | Evaluation |
|-----|-----------------------------|-------|---------|-------------|----------|------------|
| 1 | Premier Prepared Foods | 40 | 10 | 10 | 12 | 8 |
| 2 | Brunswick Building Supplies | 40 | 11 | 9 | 11 | 9 |
| Tot | | 80 | 21 | 19 | 23 | 17 |

Outline answers

Premier Prepared Foods

| a | From the data provided for 2008, calculate one measure of staff retention (staff turnover) and one measure of labour productivity (meals per employee) | <table> <thead> <tr> <th></th> <th>2006</th> <th>2007</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Total output ('000 meals)</td> <td>1,500</td> <td>1,750</td> <td>1,900</td> </tr> <tr> <td>Total costs (£'000)</td> <td>£1,350</td> <td>£1,925</td> <td>£2,185</td> </tr> <tr> <td>Unit cost (£ per meal)</td> <td>£0.90</td> <td>£1.10</td> <td>£1.15</td> </tr> <tr> <td>Avg number of employees</td> <td>220</td> <td>240</td> <td>250</td> </tr> <tr> <td>Number of employees leaving</td> <td>33</td> <td>60</td> <td>50</td> </tr> <tr> <td>Staff turnover</td> <td>15.0%</td> <td>25.0%</td> <td>20.0%</td> </tr> <tr> <td>Cost per meal</td> <td>£1.20</td> <td>£1.30</td> <td>£1.45</td> </tr> <tr> <td>Meals per employee</td> <td>6,818</td> <td>7,292</td> <td>7,600</td> </tr> </tbody> </table> | | 2006 | 2007 | 2008 | Total output ('000 meals) | 1,500 | 1,750 | 1,900 | Total costs (£'000) | £1,350 | £1,925 | £2,185 | Unit cost (£ per meal) | £0.90 | £1.10 | £1.15 | Avg number of employees | 220 | 240 | 250 | Number of employees leaving | 33 | 60 | 50 | Staff turnover | 15.0% | 25.0% | 20.0% | Cost per meal | £1.20 | £1.30 | £1.45 | Meals per employee | 6,818 | 7,292 | 7,600 |
|-----------------------------|--|--|--------|------|------|------|---------------------------|-------|-------|-------|---------------------|--------|--------|--------|------------------------|-------|-------|-------|-------------------------|-----|-----|-----|-----------------------------|----|----|----|----------------|-------|-------|-------|---------------|-------|-------|-------|--------------------|-------|-------|-------|
| | 2006 | 2007 | 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total output ('000 meals) | 1,500 | 1,750 | 1,900 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total costs (£'000) | £1,350 | £1,925 | £2,185 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unit cost (£ per meal) | £0.90 | £1.10 | £1.15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Avg number of employees | 220 | 240 | 250 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Number of employees leaving | 33 | 60 | 50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Staff turnover | 15.0% | 25.0% | 20.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost per meal | £1.20 | £1.30 | £1.45 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Meals per employee | 6,818 | 7,292 | 7,600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b | Describe two benefits of an effective induction training programme for PPF | <p>Staff receive training before being put into the rigours of food production line for real</p> <p>Opportunity to assess employee skills and attitudes (potentially filter out unsuitable staff)</p> <p>Less disruptive to actual production</p> <p>Supports better quality</p> <p>Lower staff turnover – particularly if employee expectations about job roles and work experience on the production line can be managed</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c | Analyse whether the increase in unit costs in 2007 and 2008 might reduce the competitiveness of PPF | <p>Define competitiveness:</p> <ul style="list-style-type: none"> - PPF able to compete effectively against competitor food manufacturers - Customers perceive PPF as providing good value for money (price <i>and</i> quality are both factors) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | | <ul style="list-style-type: none"> - PPF able to earn a satisfactory return (profit, ROC etc) <p>Potential impact of increase in unit costs:</p> <ul style="list-style-type: none"> - Lower profit margin per meal (assuming cost increases not passed onto customers) - Higher breakeven output (depends on whether extra costs are fixed or variable – but likely to be variable costs since case study mentions higher ingredient costs) <p>Impact on competitiveness? It depends:</p> <ul style="list-style-type: none"> - We are not told whether selling prices have also risen (supermarkets likely to be reluctant to accept price increases) - If cost increases are due to ingredients, then competitors will also be suffering, so the effect on competitiveness is mitigated |
| d | Evaluate the main problems that PPF will experience from high levels of staff turnover | <p>Define staff turnover</p> <p>How high is “high levels of staff turnover”? (important to make point that food manufacturing industry is relatively low-skilled and low-paid, with much temporary employment; so staff turnover might be expected to be relatively high for any firm in the market)</p> <p>Potential problems for PPF (each one chosen needs to be developed/explained):</p> <ul style="list-style-type: none"> - Disruption to production (new employees need to be trained) - Impact on quality (depends on workforce roles of new employees) - Loss of investment in training - De-motivation – lower morale amongst a workforce that is constantly changing - Makes it harder to introduce new technology & products <p>Is staff turnover such a big issues? Develop some counter arguments...</p> <ul style="list-style-type: none"> - Inevitable in this industry; management just have to live with it - More important is ensuring that business meets customer quality standards and that capacity utilisation and labour productivity is high |
| e | Discuss how PPF could “significantly improve” its return on capital in order to achieve the objective of 7% | <p>Define ROC</p> <p>Main elements of investment: plant and machinery; land & buildings; stocks</p> <p>The issue for PPF: low profitability + 7% target does not seem very high considering that “Chef’s Pantry” has a USP of “high quality organic meals” (would suggest returns on investment should be high)</p> <p>Potential actions (two approaches: increase profits and/or reduce investment)</p> <p>Increasing profits:</p> <ul style="list-style-type: none"> - Higher factory capacity utilisation – ideally by bringing in new customers - Renegotiate prices with ingredient suppliers – maybe focus more business on a smaller |

| | | |
|--|--|--|
| | | <p>number of suppliers to obtain better prices</p> <ul style="list-style-type: none"> - Review Chefs Pantry pricing – can it be increased (price elasticity?) - Reduce costs – strip out unnecessary overhead; rationalise production shifts <p>Reduce investment:</p> <ul style="list-style-type: none"> - Dispose of surplus assets - Carry less stock |
|--|--|--|

Brunswick Building Supplies

| | | |
|---|--|---|
| a | Explain, using an example from Figure 1, the terms “span of control” and “organisational hierarchy” | Two good definitions to get the marks + reference to Fig 1 |
| b | Analyse two ways in which BBS directors could communicate more effectively with depot staff | <p>Define communication</p> <p>Linking communication with org structure: does the hierarchy have too many layers? What is the role of the Area Managers and Divisional Managers? A flatter hierarchy would encourage better (more direct) communication. There looks to be some overlap there</p> <p>A role for regular face-to-face meetings between depot staff and BBS directors: important to hear from Sales and Operations Directors about how the business is performing (not just to hear about redundancies)</p> <p>Build closer communication links between Directors and Depot Managers – DMs are the main source of day-to-day communication</p> |
| c | Evaluate the advantages and disadvantages of BBS taking a more aggressive approach to managing cash flow | <p>Advantages</p> <ul style="list-style-type: none"> - Substantial investment in working capital in the business (trade debtors + stocks) means that better cash flow management has to start in this area - Economic downturn means that distributors like BBS have to take a stricter approach to allowing customers credit; the risks of customers defaulting on amounts owed are much higher - Likely to be trading on relatively low profit margins (highly competitive market), so the costs of bad debts would be significant - Downturn in demand increases the risk that the depots are carrying excess stocks <p>Disadvantages</p> <ul style="list-style-type: none"> - Suppliers will themselves be under cash flow pressure – unlikely to agree to extended |

| | | |
|---|---|---|
| | | <p>payment terms (though maybe at the expense of a better margin)</p> <ul style="list-style-type: none"> - Must not risk losing access to supply - Increased danger than sales will be lost through (a) customers seeking better credit terms from competitors and (b) not being able to provide stock that is demanded <p>Overall conclusion required – on balance, seems very sensible to take action on minimising the working capital invested in the business and to conserve cash as far as possible</p> |
| d | <p>To what extent do you agree that depot managers should have the freedom to make “local marketing decisions”?</p> | <p>What would be meant by local marketing decisions:</p> <ul style="list-style-type: none"> - Pricing (by product and/or customer – implications for credit control and profit margins) - Product (what is stocked in the depot or has to be ordered – implications for stockholding) - Promotion – special offers, customer incentives (very popular in this market) - Place (outside of the control of the depot manager) <p>Good reasons to allow freedom over marketing decisions:</p> <ul style="list-style-type: none"> - Better understanding of local competition & market demand - Experienced depot manager will develop relationship with key customers - Better able to negotiate and close a sale - Consistent with having depot budgetary responsibility (targeted at the “contribution level”) - Motivational – increased responsibility <p>Some reasons why it might not be a good idea:</p> <ul style="list-style-type: none"> - Central control over supplier purchasing fixes the cost – but margin can easily be lost at the depot level - Inexperienced depot managers may take unnecessary credit risks with customers - Depot likely to overstock <p>Finish with a balanced conclusion</p> |