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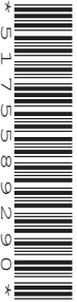
To be opened on receipt

A2 GCE BUSINESS STUDIES

F297/01/CS Strategic Management

PRE-RELEASE CASE STUDY

JUNE 2017



INSTRUCTIONS TO TEACHERS

- This Case Study **must** be opened and given to candidates on receipt.

INFORMATION FOR CANDIDATES

- The information contained within this Case Study is based upon one or more real businesses.
- You **must** make yourself familiar with the Case Study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the Case Study will be given to you with the Question Paper.
- This document consists of **8** pages. Any blank pages are indicated.
- This copy must **not** be taken into the examination room.

Martin Mobility Ltd (MML)

Martin Mobility Ltd (MML) designs and sells mobility aids to the retail trade, both in the UK and elsewhere in Europe. Consequently, MML is in the Business to Business (B2B) market. MML's product portfolio includes powered mobility scooters (from small 'car boot scooters' all the way up to a range of 8mph road-legal scooters), walking frames and 'rising' furniture ('easy' chairs which can lift the occupant into a near upright position) (see Fig. 1). The mean average price of a scooter is £2500. However, there is considerable variation between the 'average' and the actual price due to the range of models sold and the degree to which customers can specify certain features.

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MML's product portfolio by sales revenue

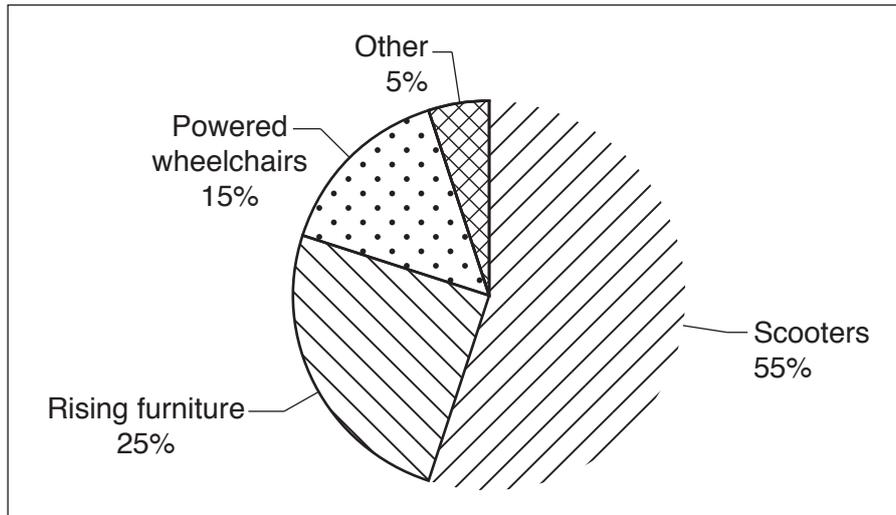


Fig. 1

Export sales are significant. In the last four financial years (2013 to 2016) MML's export sales have risen by nearly 300% to just under £1m. The objective is to increase this to £1.5m in 2017, £2.3m in 2018 and £3.5m by 2019. However, continuing uncertainty surrounding the UK's political relationship with the EU has led to doubt about the sustainability of this growth. Hence, MML is also actively looking to other export markets.

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Users of MML's products fall into two main categories. First are the elderly. These users turn to MML so that they can enjoy continued mobility, both in the home and beyond. Many have comfortable levels of individual wealth, typically through final salary pension schemes and housing equity. The majority are net savers. As a group, UK pensioners have consistently been protected by successive governments from cuts in the UK's social security budgets. Furthermore, the UK population is projected to rise from 64m in 2013 to 78.8m by 2050, with the elderly comprising an increasing percentage. Combined, these factors make the 'Grey Pound' a large and growing market (see Fig. 2).

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Percentage of 65–69 year olds with median national income, 1961 to 2011

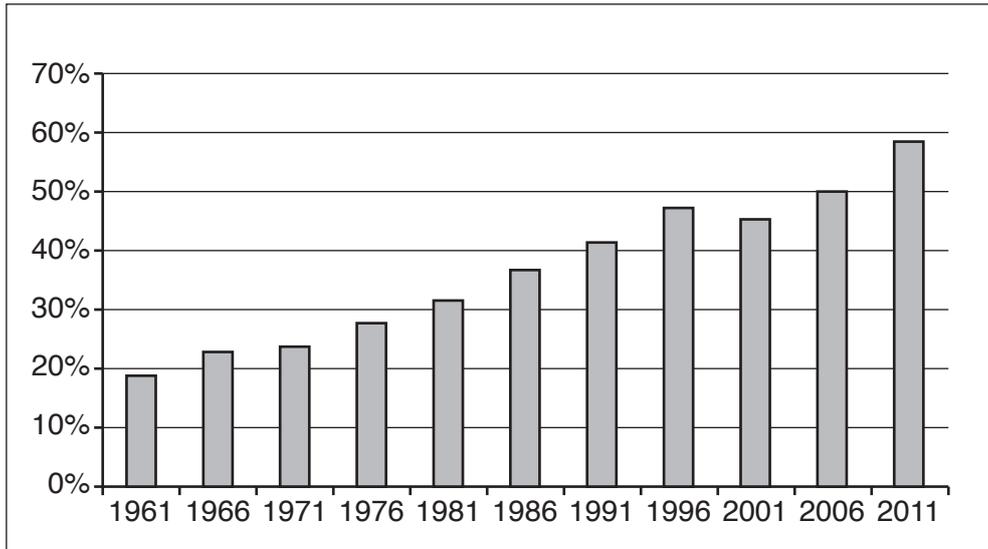


Fig. 2

For the elderly, mobility aids are often purchased as something of a lifestyle accessory. If the individual has a blue disability badge, is registered disabled or has a chronic illness, then they do not pay VAT on MML's products.

The second user group, in contrast to the first, views mobility aids as essential due to individual medical needs arising from accident, illness or a birth defect. Consequently, the majority of UK users in this group obtain their aids via the National Health Service, rather than through an individual purchase. Sales via the Motability scheme are also significant, particularly in the car boot scooter market. This second group also spans all ages, not just the elderly. 25

Robert Martin founded MML over 20 years ago. It is located in a market town in Norfolk in East Anglia. His background is in industrial design. Several years after incorporating MML, he came to realise that running a successful business needed a set of personal attributes that he did not have. As a result, he appointed Amit Choudhury as Managing Director to have day-to-day control and responsibility for MML. Robert maintains an overview of MML through his role as Chairman of the Board of Directors. Furthermore, he continues to update and improve products. Robert has other business interests, hence his involvement with MML is occasional. However, MML is an important source of Robert's personal income via his dividends. When Amit travels to Taiwan to meet with scooter suppliers Robert will often accompany him. In transactions with Taiwanese suppliers, the US dollar is used. Typical lead time is three months. The freight cost for a container from Taiwan to Felixstowe is less than that from Felixstowe to Norfolk. 30 35

A key factor for success in MML's market is quick response to retailers' orders. Often a retailer will need to invest a lot of time and care in leading one of their customers to making a purchase. For most people a mobility aid is not a product they desire to own, and accepting that they need one can be seen as another of life's 'rites of passage'. Delays between the user's decision and delivery are to be avoided in case 'second thoughts' occur. MML prides itself on being able to supply any product in its portfolio, or parts, by the next day. Hence MML carries a considerable amount of stock at its warehouse, ready to be moved by any one of three specialist logistics companies. To preserve the reputation of the business for excellent customer service, MML will cannibalise a 'sale ready' scooter if the part ordered is not available as an individual stock item. Consequently, at any one time, there is a small collection of forlorn looking scooters in the corner of the warehouse missing key components. When this happens, the Warehouse Manager, George Cox, will add these components to MML's monthly order so that the scooters can be returned to saleable condition as soon as possible. 40 45 50

George is something of a legend at MML due to his long service and encyclopaedic knowledge of MML's products. This mystique is something he is not averse to cultivating, so much so he believes that he cannot take his full 28 days' holiday entitlement because, without him, the warehouse would come to a halt. Amit only goes into the warehouse when absolutely necessary, claiming his 'arm's-length management approach' empowers George and his warehouse team. In total, MML employs 28 staff. In 2016 it had a wage bill of just under £1.3m. 55

Mobility aids are physically robust and, as such, their useful economic life can run into several years. One market trend which Amit has noticed in the last few years is that of private users replacing their scooter even though its technical performance is still very good. In essence, users seem to be becoming more image conscious in wanting the latest products. Thus, the scooter market is evolving along the lines of the automotive sector. This replacement market means that MML is coming under increasing pressure from retailers to offer a 'trade-in' service. However, retailers cite two reasons why they should not be selling the second-hand products this would generate. Firstly, the profit margins on used scooters would be minimal compared to new models. Secondly, there is a risk that a user may feel pressurised into buying simply because the retailer has a particular second-hand scooter available. If MML were to buy back pre-used products from the retailers at an average cost of £400 this would enable the retailers to offer the new scooters at more competitive prices due to this additional revenue. The issue for MML is what it could do with this used stock. One possibility is to sell it 'as is' into less developed economies, where the need for mobility aids might exist but incomes do not. Amit is concerned that this strategy could have ethical implications. Whilst MML does not overtly draw attention to its ethics, Amit believes the business is both successful and ethical. He would like to see MML's Marketing Manager, Isobel Rajoy, refer to ethics as a key differentiator in MML's marketing. However, Isobel holds that ethics are culturally based, so what is understood in the UK market may not be transferable to other countries. 60 65 70 75

An alternative to selling second-hand scooters into developing economies is to refurbish them. This would entail upgrading their technical features and installing the latest battery technology. After the thorough overhaul, MML would offer a six-month warranty (new machines have a one-year warranty). Refurbishment would also add labour costs as well as material costs, which would increase the price MML would need to charge in order to maintain profitability. George believes an upgrade would take a technician a full day to complete, at an estimated cost of £200, and have a material cost of £380. George has told Amit, "...as you know, in the warehouse we're already snowed under and we're always busy, so we'd need a new recruit. We're also short of space as it is, so where this person will work is another issue for you." Transport from the retailer back to Norfolk, and then to the customer, would add a further £125 per unit. 80 85

In addition, there is the challenge of establishing a distribution channel for refurbished scooters. From discussion, MML's existing retailers have voiced reluctance to having new MML products alongside refurbished ones. They say this would devalue their product offering and confuse already unconfident users. Amit is keenly aware that MML's market position arises through its relationship with its customers, the retailers. He is wary of anything, such as selling refurbished machines via e-commerce, that might upset existing relationships. Robert's answer is to sell the refurbished machines, under a different brand name, to the markets MML is targeting in Europe. With a population of over 500m, Europe offers considerable scope for exploitation. Robert's vision is to add a few design tweaks without altering the products' underlying architecture. MML would then sell the refurbished machines in European countries whose GDP per capita is lower than the UK, whilst selling MML branded products to the wealthier nations. Whether or not these countries are in the Eurozone is immaterial, as MML already sells in a multitude of different currencies. Robert's view is that because MML hedges its US Dollar and Euro transactions, adding other currencies would add very little complexity. He thinks his 'two tier' approach, using limited product discrimination, is the best way to meet the business' export objective. Robert has also set Amit the objective of total sales revenue growing to £15m by 2020, and profit returning and being permanent by 2018. See **Appendices 1, 2 & 3** for some recent financial information for MML. 90 95 100

Appendix 1
MML's Balance Sheet extract (as at 30 June)

	2016	2015
	£m	£m
Fixed Assets		
Property, Plant and Equipment	2.01	2.30
Investments	<u>0.01</u>	<u>0.01</u>
	2.02	2.31
Current Assets		
Stock	5.11	3.89
Debtors	2.49	2.15
Cash	<u>0.20</u>	<u>0.04</u>
	7.80	6.08
Current Liabilities		
Trade creditors	(3.65)	(2.45)
Net Current Assets	4.15	3.63
Creditors falling due after one year	(1.19)	(0.43)
Net Assets Employed	<u>4.98</u>	<u>5.51</u>
Equity		
Share Capital	0.47	0.47
Profit & Loss Account	4.51	5.04
Equity Shareholders' Funds	<u>4.98</u>	<u>5.51</u>

Appendix 2
Profit & Loss Account extract (year ended 30 June)

	2016	2015
	£m	£m
Revenue	10.30	9.48
Cost of sales	<u>7.48</u>	<u>6.95</u>
Gross Profit	2.82	2.53
Salaries, administration & overheads	2.59	2.37
Marketing, distribution & product development	<u>0.10</u>	<u>0.10</u>
Operating Profit	0.13	0.06
Depreciation	0.09	0.10
Interest	0.07	0.04
Profit before taxation	<u>(0.03)</u>	<u>(0.08)</u>
Taxation on ordinary activities	0.00	0.00
Net Profit	<u>(0.03)</u>	<u>(0.08)</u>
Dividends	0.50	0.50
Retained Profit	(0.53)	(0.58)

Appendix 3

Profit & Loss by product type (year ended 30 June 2016)

	Scooters £000	Furniture £000	Wheelchairs £000	Other £000
Revenue	5665	2575	1545	515
Cost of Sales	4039	2094	1197	150
Gross Profit	1626	481	348	365
Salaries, administration & overheads	648	648	648	648
Marketing, distribution & product development	50	25	20	5
Operating Profit	928	(192)	(320)	(288)
Depreciation	30	20	20	20
Interest	25	16	14	15
Profit before taxation	873	(228)	(354)	(323)

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