Cambridge International AS & A Level

BUSINESS **9609/31**

Paper 3 Case Study **October/November 2022**

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INFORMATION
- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **8** pages. Any blank pages are indicated.

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Activity Play (AP)

AP is a public limited company in country Z. AP manufactures plastic and metal playground equipment including slides, roundabouts and climbing frames. AP produces all the components and assembles them into finished products. These are sold to local governments and schools for use in children's playgrounds. AP has grown rapidly since 2017 and has become the leading supplier in country Z. Production capacity is likely to restrict further expansion. The directors aim for continued growth of AP. However, they are cautious and want to be sure that any strategies they choose will not be too risky.

A possible merger

SC is a co-operative producing plastic and steel components, which could be adapted for playground equipment. AP's directors have identified that a merger with SC could reduce average costs and provide greater capacity. SC's owners have indicated they would consider a reasonable offer that would include cash and a minority shareholding in AP. SC has a decentralised organisational structure. Its managers and workforce are skilled and flexible. It would be possible to operate the newly merged business as two separate divisions or as one organisation. AP's directors are considering the advantages and disadvantages of the merger and realise that its success depends on a range of factors.

Operations

AP uses batch production to produce 20 different products. The production employees are unskilled or semi-skilled and receive minimal training. Production is semi-automated and employees set up and monitor the machinery. The finished products are stored before delivery to customers.

The Operations Manager is replacing two old machines with new computer-controlled machines. These will lower costs and increase capacity. He completed Table 1 using information from the new machine supplier. This was the first time he had used network analysis. The suppliers will be responsible for activities B to J.

Table 1: Activities needed for the installation of new machines

Activity	Activity described	Preceding activity	Duration in days
A	Take delivery of new machines	–	1
B	Remove old machines	–	2
C	Prepare factory space	B	4
D	Install new power supply	C	2
E	Install new machines	A, B	3
F	Test new machines	E, D	2
G	Train employees off-the-job	–	1
H	Train employees on-the-job	F, G	2
J	Test run	H	2

Fig. 1 shows the network based on Table 1. The Operations Manager was confident that the new machines would be ready for production within a 14-day deadline.

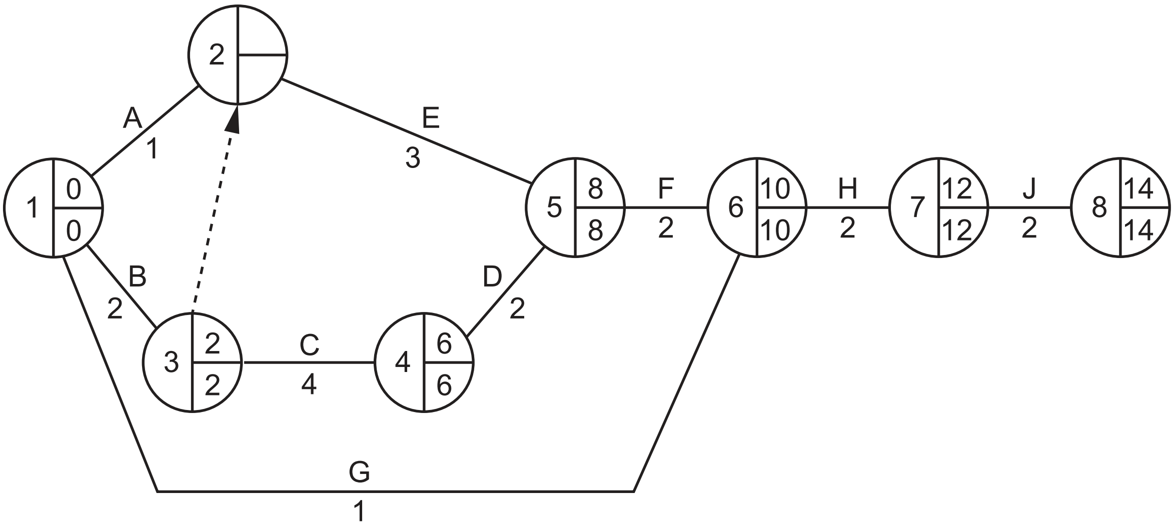

Fig. 1: Network diagram for the installation of new machines

A new government contract – accept or reject?

The government of country Z has asked AP to supply 100 climbing frames at a price of $70 each. The normal price for a climbing frame is $110. The direct cost of wages and materials to make each climbing frame is $50. At current output levels, the indirect cost is $30 per climbing frame. The government requires very quick delivery of the climbing frames. The Marketing Manager is considering how to respond to the proposed government contract.

Human resource management (HRM)

AP is structured by function and has 300 employees. Each department has a manager who is accountable to a director. All line managers follow strict company guidelines which focus on control and centralisation of decision-making. This has resulted in costs being kept low, ineffective employees leaving and a reputation for high-quality products.

However, managers are aware that employees increasingly feel that they are overworked and underpaid. The newly appointed HR Manager has noted the following problems:

- employees refusing to work overtime
- legal challenges to holiday and sick pay terms and conditions
- 28 unfair dismissal appeals
- complaints about authoritarian managers who never listen to employees
- a 40% increase in temporary employment contracts
- many female employees leaving due to low pay and lack of promotion opportunities.

The government of country Z is about to introduce new employment (labour) legislation that will require all businesses with 200 or more employees to:

- allow trade unions and collective bargaining
- demonstrate that management and workforces are cooperating
- implement a policy for diversity and equality.

International marketing

The Marketing Manager has investigated opportunities in international markets. She believes it would be profitable to enter the playground equipment market in another country. She has identified countries P and T as possible markets to enter. Table 2 summarises the research data which will help her recommend to AP's directors which market to enter.

Table 2: Research data for playground equipment markets

	Country P	**Country T**
Population (million)	20	30
% population under 15 years of age	20	15
Number of competitors	10	4
Possible market entry method	Joint venture with agents	Direct investment in factory
Estimated cost of marketing campaign to achieve 5% market share ($m)	2.5	2.0
Economic factors	• Low import tariffs • No indirect taxes on playground equipment • Country Z's currency appreciating against country P's currency • Economic growth 3% per annum	• Government grants for building new factories • Weak trade unions • Stable exchange rate • Economic growth 5% per annum

Strategic options

The directors know that competition is increasing and that international businesses want to enter the playground equipment market in country Z. AP wants to continue to grow by making use of its existing strengths. The directors have researched two strategic options for AP, only one of which will be chosen.

Option 1
AP would market its products to the consumer market in country Z. Some products would have to be reduced in size and new ones designed and manufactured to be suitable for household gardens. Different safety standards would also apply. AP would need an appropriate marketing plan. This option would require significant investment in production and marketing. Competition in the consumer market for outdoor play equipment is not as strong as in AP’s existing market. External finance may be required.

Option 2
AP would redesign its existing products to use environmentally friendly materials and components. Country Z’s central government and local authorities are increasingly aware of the dangers of climate change. One local government authority has already started to only order products from manufacturers which use sustainable methods. The cost to AP of redesigning its products would be high and there are implications for marketing too. Some competitors have already introduced environmentally friendly products.

The directors believe that effective strategic management will become even more important in an increasingly competitive world. An external business consultant prepared data based on initial market research. Tables 3 and 4 show the results.

Table 3: Decision tree analysis for 3-year timescale

	Initial cost ($m)	Net revenue ($m)	Probability	Expected monetary value ($m)
Option 1: country Z consumer market	2.0	6.8 (high demand)	0.6	3.76
		4.2 (low demand)	0.4	
Option 2: environmentally friendly products	2.8	8.2 (high demand)	0.7	4.08
		3.8 (low demand)	0.3	

Table 4: Force field analysis

Forces for change			
Option 1		**Option 2**	
Less competition than in existing market	5	Growing market	4
Existing production methods can be used	5	Good motivation for employees	3
Low risk, no long-term commitment	3	Long-term environmental strategy	4

Forces against change			
Option 1		**Option 2**	
New target market	3	More expensive materials	4
Lack of market research data	3	Relies on trained employees	3
External finance required	3	No guarantee of government contracts	3

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