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A2 GCE APPLIED BUSINESS

F248/01/CS Strategic Decision-Making

PRE-RELEASE CASE STUDY

JUNE 2016



INSTRUCTIONS TO TEACHERS

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

INFORMATION FOR CANDIDATES

- 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.

Snowdon Sweets Ltd

The business

Snowdon Sweets Ltd, a family owned business based in West Yorkshire, was founded in 1973. Its mission was to manufacture high-quality traditional liquorice sweets for a discerning market. All of its liquorice sweets are packaged in aluminium tins with elaborate gold and black lettering. A strong luxury branding has given the company an exclusive reputation for sophistication and excellence within the confectionery market. Its annual turnover now exceeds £10 million.

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The background

In its first four decades of trading, *Snowdon Sweets Ltd* built up a product range of over 30 varieties of liquorice sweet. Its range now includes liquorice bites, liquorice and blackcurrant pastilles, liquorice and aniseed chews, and liquorice beans. All of the company's sweets are suitable for vegetarians and contain 100% natural colourings and flavourings. *Snowdon Sweets Ltd* sells its sweets to specialist confectionery wholesalers and exclusive retailers. The company does not sell to supermarkets for fear that targeting a mass market would be inconsistent with the exclusivity of its products, serving only to lower profit margins and damage sales in the niche market in which it operates. *Snowdon Sweets Ltd's* products can be purchased in tourist attraction concession stores, high-end department stores, motorway service stations, quality confectioners and gift shops of distinction.

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The founding directors have always sought to uphold the original aims of the company and maintain a clear understanding of the business culture by which it operates. Despite the use of automation, the modern confectionery production process is essentially the same as the production processes of the founding years. Batch production is still the preferred method of manufacture.

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The business has always had a flat organisational structure with very little middle management. On the factory floor there are no supervisors; instead, production operatives have direct access to the Production Manager, currently Thaz Baig. Thaz has been successfully managing *Snowdon Sweets Ltd's* confectionery production line for many years. Thaz's laissez faire leadership style works well because most of the operatives on the confectionery production line are very experienced; consequently, they know what they are doing and need little guidance.

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Members of the Snowdon family have a strong ethical conscience. The founding directors have always been, and remain, committed to operating the company in an ethical manner. This ethical stance has significantly benefited the work-life balance of the company's confectionery production line employees for over 30 years. The factory has only ever operated from Monday to Friday and each of its confectionery production line employees (currently totalling 78) has a generous 10-week holiday entitlement each year. Job satisfaction on the confectionery production line is high; the operatives are multi-skilled and benefit from job rotation and enrichment programmes. The confectionery production line employees take pride in their work and feel personally valued for their contribution to the company's success. Their pay rates are well above the industrial average and working conditions are excellent.

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Since the inception of the company, liquorice has always been bought from a sole supplier – a liquorice farm 15 miles from *Snowdon Sweets Ltd's* factory. *Snowdon Sweets Ltd* is dependent on both the quality and quantity of the liquorice supplied. Liquorice is not the easiest plant to grow and requires manual harvesting. The farm is skilled at cultivating the plants so that the best quality liquorice essence is produced.

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The financial performance of *Snowdon Sweets Ltd* has been directly affected by the volatile commodity price of sugar. Nevertheless, the founding directors have always insisted on

purchasing sugar from Fair Trade certified sources which may be more expensive than could be obtained elsewhere. The founding directors have also always required the company which makes the aluminium tins for *Snowdon Sweets Ltd* to use recycled aluminium in order to minimise any damage to the environment. 45

2013 and beyond

In 2013 the company's six founding directors, all members of the Snowdon family, appointed Chas Perkins as Chief Executive Officer (CEO) of *Snowdon Sweets Ltd*. Chas is the first, and only, director of the company who is not a family member. He came to the company with good credentials having been the deputy CEO of an expanding pharmaceutical company for several years. Chas came with a reputation for pursuing aggressive business growth and a desire to innovate. The founding directors, acknowledging their own advancing years, believed Chas had the drive and energy to lead their family's company into its fifth decade. Chas was given a remuneration package which included a basic annual salary in excess of £100 000, a performance related annual bonus and a generous final salary pension. The remuneration package did not include any share options, the six founding directors remaining the only shareholders of the company. 50 55

After his appointment as *Snowdon Sweets Ltd*'s CEO in 2013, Chas began to consider the company's next move. While acknowledging the founding directors' commitment to business ethics, Chas believed the company needed to pursue new and more profitable opportunities. Chas thought that combining his knowledge of the pharmaceutical industry and the company's expertise in manufacturing liquorice products made perfect sense. Liquorice is a herb which is believed to have medicinal properties. *Snowdon Sweets Ltd* could enter the herbal remedy market, producing herbal lozenges. *Snowdon Sweets Ltd*'s strong brand identity and the higher profit margin in pharmaceuticals compared with confectionery made this an attractive opportunity. 60 65

Despite some initial disagreements with the founding directors, Chas began trialling the manufacture of herbal lozenges. Although the herbal lozenges would have the same basic ingredients as liquorice sweets, the production process would be very different. The ingredients would have to be boiled to precisely 150 °C and additional care would need to be taken to ensure the correct strength of the liquorice essence – the active ingredient. The packaging would also need to be different; the lozenges would need to be vacuum packed and inserted in cardboard sleeves. A different marketing strategy to that used for confectionery products would also be required. 70 75

Within six months Chas had used his considerable persuasive powers to convince the founding directors that *Snowdon Sweets Ltd* should enter the herbal remedy market. Having acquired the necessary licences, registration and marketing authorisation, *Snowdon Sweets Ltd* obtained a 10 year variable rate bank loan of £8 million to fund the venture.

Chas wasted no time in having the size of the factory doubled and the new herbal lozenge production line installed. Eager to get the herbal production line up and running, Chas instructed Thaz Baig to appoint 40 new employees on minimum wage. Thaz was told to directly manage both production lines. He would be given a substantial pay rise to compensate for the additional span of control and increased workload. Thaz was given no training for the new herbal lozenge production process and his new employees had little or no experience of production, never mind food production or pharmaceuticals. Thaz gave his new production operatives basic health and safety training but beyond that they would all have to learn together. 80 85

Snowdon Sweets Ltd's first herbal lozenges were produced in 2014. The herbal lozenges went on sale in small independent pharmacies, health shops and herbal stores. Chas was convinced that the herbal remedy market would be a lucrative one for the company. 90

The problem

Despite a full year of operation the herbal lozenge production line still does not run as smoothly as the confectionery production line. Wastage on the herbal lozenge production line is considerably higher than on the confectionery production line and employee morale is noticeably lower. In addition, despite considerable sums of money being spent on marketing its herbal lozenges, the company has failed to secure any major contracts to supply national pharmaceutical chains. *Snowdon Sweets Ltd's* herbal lozenges are not yet recognised as a respected brand in the herbal remedy market. With costs higher and revenue lower than expected, cash-flow is now a significant issue. Being highly geared, servicing the company's debt has also become difficult.

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Also, during the same trading period, consumer trends have made trading in the confectionery market increasingly difficult. The strong luxury brand is in trouble; for the first time *Snowdon Sweets Ltd* has experienced a fall, by volume, in its confectionery sales. Add to this the relentless increase in sugar prices and the considerable impact which the cost of research and development for the introduction of the herbal lozenges have had on the company's profit levels in 2014, it is clear that the company is in crisis.

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The options

Priding himself on his constant innovation and entrepreneurial spirit, and never daunted by a challenge, Chas has come up with several options which the company could take. Chas plans to table the following six options for consideration at the next board meeting. He hopes that as many as possible of his ideas will be adopted. To Chas, innovation is the name of the game – a company must constantly move on if it is to survive and grow.

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Option 1 – Buy the liquorice farm

It is rumoured that the 120 acre farm which supplies *Snowdon Sweets Ltd* with liquorice is in financial difficulty. *Snowdon Sweets Ltd* could buy the farm as a going concern for £4 million. Additional finance would be needed to fund this option.

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Option 2 – Change the company name

Chas believes that the poor sales of *Snowdon Sweets Ltd's* herbal lozenges are due, at least in part, to the company's name being allied with the confectionery market. A change of company name could be registered with Companies House. It would take immediate effect and incur minimal cost.

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Option 3 – Go public

The company could raise funds by floating on the London Stock Exchange. The process would take approximately six months and incur significant costs.

Option 4 – Go organic

The company could apply for organic certification. All ingredients would need to be purchased from organic sources and some production processes may need to be changed. Certification would allow the company to market its products as organic.

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Option 5 – New product development

The company's product range could be extended to include other liquorice based products: some could be made on the existing production lines, e.g. liquorice cordial or raspberry and liquorice jam; others would require new production line facilities, e.g. liquorice and blackcurrant ice-cream or steamed liquorice sponge puddings.

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Option 6 – Herbal lozenges only

Chas believes that the herbal lozenges have the potential to achieve a far higher profit margin than any of the company's confectionery products. The company could stop production of all other products and convert its facilities entirely to the production of herbal lozenges for the pharmaceutical market – a market Chas believes he knows well.

Appendix 1

The UK confectionery market

The confectionery production industry has found itself in a sticky situation during the past five years. Britain's descent into a painful recession gradually eroded consumer confidence, sharply constraining spending on confectionery products. At the same time, rising sugar and milk prices have increased production costs, and weak demand has limited producers' ability to pass these costs on to consumers, resulting in falling profitability.

Many products in the sugar confectionery segment have undergone notable price increases in the past decade. Confectionery manufacturers have had to tackle rising costs by passing on the increase to the consumer, as well as devising new formulations of current products and looking for new formats altogether.

Ongoing consumer concerns about healthy diets and competition from other treats and snacks such as chocolate and crisps, which have enjoyed more active innovation and marketing support, are also likely to have played a role in curbing underlying growth. Health has become a growing consideration. Innovative new product development in sugar confectionery will be essential in engaging consumers to maintain sales volume and prices.

The organic and fair trade movements have gathered momentum over the past decade and created niche segments across the food and beverage sector.

Appendix 2

Cultivating liquorice

Liquorice is a herbaceous perennial, pea-like plant which is native to areas of Southern Europe and Asia.

The meaning of the Greek word glycyrrhiza is 'sweet root' and it is the roots of the plant that give liquorice its characteristic flavour, being some 50 times sweeter than sugar.

It is thought that the first liquorice plants were brought to England during the Crusades by monks who stopped in Pontefract to establish a monastery. As a result, the Yorkshire town soon became the centre of Britain's liquorice industry.

Despite the cooler climate, the liquorice plants thrived in the deep loamy soil, which is an essential requirement for their cultivation. The plants grow to a height of 1.5 to two metres, with a spread of one metre. The roots are a bright yellowish brown colour and are easily cut with a knife to show a yellow juicy substance which has a peculiar earthy odour and a sweet flavour.

In autumn, the plants are dug up and the roots cut away from the crown. The crowns are then stored in slightly moist compost and put in a cool dark place for the winter. In spring, the crowns can be planted out after all risk of frost has passed.

The extract of the liquorice root is one of the main ingredients in liquorice confectionery.

Appendix 3

The wonders of liquorice

For centuries liquorice has been used as a medicine by the ancient Greeks, Egyptians and the Chinese. It has been a key ingredient in many herbal tonics and elixirs and is one of the most valued herbal medicines of all time.

Liquorice is a sweet, nourishing herb that is excellent for healthy lungs and clear breathing. Liquorice root contains many anti-depressant compounds. As a herbal medicine it has an impressive list of well documented uses and is probably one of the most overlooked of all herbal wonders. Liquorice is an antioxidant and is useful for many ailments including asthma, colds and flu, coughs, dandruff, sore throat and arthritis. It is said to be very good for digestion and extremely healing for the gut.

Appendix 4

Herbal products in the UK

In 2012 herbal products in the UK increased by a healthy 3% in current value terms to reach £485 million. Similar to the trends affecting vitamins and dietary supplements, herbal products benefited from an increasingly educated consumer base which uses herbal remedies to complement other medicines or vitamins. Herbal products are also used to prevent health conditions and to improve general health.

Many of the firms operating in the herbal products market are small and medium-sized companies. The impact of the EU Human Medicines Directive is a challenge to the survival of smaller manufacturers and less popular products, as the required registration and the marketing authorisation by the Medicines and Healthcare Products Regulatory Agency (MHRA) may result in an unviable cost for producers. The impact of the EU Directive is expected to lead to several small players exiting the market. In addition, the cost of obtaining registration and marketing authorisation will simply be unviable for many new or less popular brands.

Appendix 5

Top 10 global consumer trends

1. A narrowing gap between interest and purchase

As consumers are looking for instant gratification with various products, brands are looking for ways to harness customer impulse buying.

2. Eating right

Interest in eating right goes beyond the obesity statistics – many consumers are aware that healthy eating can improve quality of life and extend longevity. Online consumers are willing to pay more for food items with specific benefits, such as added nutrients.

3. Eco-worriers and the blooming of social conscience

Consumers are increasingly looking to connect with brands, business models and products that do not associate with negative environmental or social impacts.

4. Home base: the importance of home and community

Increasing numbers of consumers are members of multi-generational households, due to rising costs of childcare, housing and aged care. Multi-generational living is important in terms of purchasing, as a mix of generations will influence buying behaviours for food, holidays and technology choices.

5. Frustrations with the lack of a work-life balance

An unfulfilled work-life balance is a widespread source of consumer stress in 2014. Many believe that mobile connectivity is blurring the work-leisure divide, creating more stress. Others believe mobile connectivity may relieve pressure on working consumers.

6. Luxury for more consumers

Consumers are looking to purchase luxury goods. However, more consumers want to get their hands on luxury items for less.

7. People's choice

Digital technology has given people the power to react to what displeases them in minutes and enables them to become brand ambassadors, spreading the word about good buys when satisfied. Consumers can influence others' purchasing habits thanks to social networks, so brands need to work harder than ever to earn consumer loyalty.

8. Post-recession coping strategies the new normal

Many consumers have modified their buying behaviours and started doing things such as thrift-store shopping, relying on credit and considering collaborative consumption.

9. There's an app for that...

With global consumers relying more than ever on mobile technology, it is no surprise that apps continue to grow in popularity.

10. Visual craving

Consumers are becoming a visual audience.

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