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7. Write **True** or **False** after **each** of the following statements.

	Statement	True or False
1.	Electronic Data Interchange (EDI) involves a business exchanging its customer's data with other businesses.	
2.	Just in Time (JIT) Production allows manufacturing businesses to reduce costs by keeping stock of raw materials to a minimum.	
3.	Lead Time is the amount of time it takes a supplier to fulfil an order.	
4.	Economies of scale increase costs when a business buys large quantities of raw materials in bulk at a discount.	
5.	Optimum stock level is the ideal amount of stock a business should have at any given time.	

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6. Outline **two** methods a business may use to minimise bad debts.

(i) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(ii) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Atlantic Surf

Shay Doherty, a native of Summerstown, is the owner of *Atlantic Surf*, a surfing school located on the seafront at Summerstown Beach in County Donegal. In 2008 Shay was enjoying life in Australia and perfecting his big wave surfing skills when he read an article in the 'National Geographic' describing the quality of the giant waves surfers were experiencing along the west coast of Ireland. Inspired by the article and having always wanted to have his own business he decided to return home from Australia in 2008 to set up *Atlantic Surf*. Having tried and failed in business in the past Shay realised that he needed to carry out some market research and get assistance with this venture. Shay contacted the Irish Surfing Association (ISA) and received valuable advice on health and safety legislation, on how to network and on the importance of having a web presence. He prepared a business plan and received a business start-up grant of €10,000 from Donegal County Enterprise Board. He used the grant together with €30,000 he had saved while working in Australia to establish *Atlantic Surf*, an ISA approved surfing school.



From the outset Shay understood that location would be a key factor driving business success. While researching property sites he spotted a suitable retail premises located on the seafront at Summerstown. The property was advertised as being available for immediate use for an annual rent of €10,000. Given the economic climate at the time and the collapse in property prices in Summerstown, Shay believed that a better deal could be agreed. He telephoned the landlord and suggested a more realistic price of €7,500. This price was rejected and both parties entered into negotiations with the objective of concluding a legal contract. In April 2009, just before celebrating his twenty-eighth birthday, Shay was delighted when the landlord said yes to an annual rent of €8,000. Shay secured the premises and paid €8,000 to the landlord. The necessary documentation for the rental was signed in the solicitor's office in time for the busy summer surfing season.

Shay decided to open a 'one stop surf shop' in the rented premises and appointed Karen, a champion surfer, as its manager. The shop sells high quality stock including wetsuits, surfboards, kite surfing equipment and *Atlantic Surf* branded beach clothing. In addition, it rents out wetsuits and surfboards. From the beginning, Karen adopted a cash sales only policy with customers and negotiated a 30 day credit period with suppliers. While very pleased with the high stock turnover of the *Atlantic Surf* branded beach clothing, she had some concerns because the annual stocktake revealed a high level of kite surfing equipment still unsold. To assist with cash flow, Karen decided to use the website to highlight offers such as *6 surfing lessons for the price of 5* if payment is made in advance. Karen believes quality development is key to business success and she is hoping to apply for Quality Standard Certification in the near future.

(C) Evaluate the effectiveness of the systems of management control in operation at *Atlantic Surf*.

(30 marks)

## Applied Business Question

### Renewable Energy Solutions (RES) Ltd

Liam Best, an electrical engineer, established Renewable Energy Solutions (RES) Ltd ten years ago. The business imports, supplies and installs energy efficient solar panels that are used to heat homes and businesses. While attending a Trade Fair in Germany on behalf of his previous employer, Liam identified a niche in the market for an Irish supplier of solar panels. With twenty years experience in the heating and plumbing supplies business and with no opportunity for promotion, he decided to start his own business. Impressed with Liam's knowledge and belief in his product, Liam's bank manager and a number of private investors were happy to provide the necessary finance. The business grew rapidly and by the end of 2007 had a turnover of €30 million and a workforce of thirty.

The past year, however, has been difficult for the business. As the construction of new houses has fallen, there has been a steady decline in the sales of solar panels. Costs are rising and the business is finding it more difficult to pass on price increases to customers. Cash flow is tight and Liam is particularly concerned by the fact that two of his largest customers have not paid their bills on time. In addition, the company is finding it difficult to raise short term finance due to the current credit squeeze. Rising stock levels in the warehouse are also causing problems. A number of customers have recently returned solar panels, as a result of damage caused while in storage in the warehouse or in transit.

Liam is confident that the demand for green energy sources in Ireland will increase again. He believes that the government's new Building Energy Rating (BER) regulations, combined with the increasing demand for more cost effective and environmentally friendly heating systems, will provide opportunities for his business.

However, Liam has e-mailed all staff informing them that action will need to be taken swiftly if the business is to survive the current downturn in the economy. To avoid the introduction of compulsory redundancies, Liam explains in his e-mail that it will be necessary to implement a 10% pay cut, with immediate effect for all workers. The staff contacted their trade union to express their concerns about the proposed pay cuts. A trade union meeting has been organised to discuss staff concerns and agree a response to the pay cut proposed by Liam.

- (B) Discuss **three** types of management control that you would recommend Liam put in place to secure the future of RES Ltd.

## Stylish Décor Ltd.

Ruth Cavanagh became Managing Director of Stylish Décor Ltd., a retail and wholesale business, one year ago. She took over the paint, wallpaper and tiling business when her father Paddy retired. Paddy had been a popular employer locally but the business had not grown and kept pace with developments in technology, marketing or human resource management. The company's premises is based in an expanding town within a one-hour commuting distance of Dublin and is in need of modernisation.

The town has seen a large increase in new house building over the last few years and its development plan provides for further housing and industrial units. Ruth is ambitious. Her aim is to become a market leader. Research has convinced her of the benefits of adding a 'Do-It-Yourself' (DIY) department to the existing business and setting up a second shop in a town less than twenty-kilometres away. These initiatives will require an increase in staff, a retraining programme for existing staff, incentives, and capital investment, if the business is to succeed.

Ruth is a Business graduate and understands the importance of marketing for the success of a business. Her enterprise's market share and turnover are below those of comparable businesses. Ruth intends to penetrate the market by a further fifty-percent within the next five years, to improve the expertise of staff, the quality of customer service and the product range. The fact that a major multiple is due to open a new hardware and gardening outlet with good parking just four-kilometres away has concentrated her mind. Stylish Décor Ltd. has not, up to now, invested in marketing activities. She also intends to introduce clearly defined lines of responsibility for staff in the areas of purchasing, sales/marketing and offer employees rewards for achieving targets. She wants to make changes and respond to customer needs quickly but she is facing strong opposition from her staff.

- (A) Discuss how management activities can help Ruth improve the performance of the business. (30 marks)

### AORA

Aileen O'Rourke established her ladies fashion business and label, 'AORA' almost three years ago. Aileen had studied design at college and had graduated with distinction, coming among the top 10% in her class. Because of her desire and drive to succeed in anything she undertook, the business developed well. She had the flair and creativity necessary for the enterprise to thrive. Over the past year however competition from European designers and manufacturers has been growing. She was beginning to notice delays and shortages that were not a feature of the business in the past. A family friend, who was experienced in business management, had indicated to her that the controls in her business were not as tight as he would have expected and changes in these areas were essential.

Aileen had a democratic management style. This had worked well up to now but she was having doubts if the changes needed in the business could be achieved with such a management style. While her advisor has indicated that changes are needed quickly to raise standards and retain customers, he has not pointed out to her how she might go about achieving the changes.

The business also needs an injection of capital. It needs to expand and acquire the technology to produce the high quality products for the niche market that the 'AORA' label is aiming at. From her meeting with her advisor Aileen knows that a credible business plan to guide the future of the business and for presentation to the financial institutions is an immediate requirement.

- (A) Illustrate two areas of control that you would recommend to be put in place immediately in the business. Outline one reason in each case and refer to the above text in your response. (30 marks)

- (C) (i) Explain the term **quality assurance** as part of Total Quality Management (TQM).  
(ii) Describe the benefits to a business of achieving a recognised quality mark standard. (20 marks)

- (C) Evaluate the contributions that Stock Control and Credit Control make to the successful management of a business. Use examples in your answer. (20 marks)

