

# A-level **BUSINESS**

Paper 3 Business 3

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## Insert

Source 1: DWS Ltd



## The business

DWS Ltd was founded in 1989 by Mike Chappell, who, after five years as an apprentice metalworker, set up his own business making metal tubing. The tubing is used in the manufacture of products as diverse as furniture, cars and buildings. The operations process involves buying in sheet metal and, at extremely high temperatures, shaping and joining the metal to create the shapes required by customers. DWS Ltd has always focused on producing the very highest quality products, adding significant value and charging relatively high prices.

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### Building a profitable business 1989–1994

DWS Ltd really struggled to attract customers in its first few years. Mike spent much of his time visiting potential clients, to try to build a loyal customer base. He often did not see his two deputy managers, in charge of operations and marketing, for several weeks – which left them waiting for advice from Mike on how he wanted their departments to operate. Money was scarce – most of the start-up capital was used to purchase expensive machinery and equipment. Mike struggled to track what was happening with the finances and often had to use an overdraft. In 1991, Mike introduced a budgeting system to help with managing the company finances. By 1994, Mike had inspired his workforce, developed a motivated and committed management team and found enough customers to create a profitable business.

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### Ongoing success 1994–2009

DWS Ltd grew to employ 120 staff. The business gained an outstanding record of customer satisfaction and extremely high levels of repeat business. Financial performance was excellent, allowing growth to be financed using retained profits. Mike's approach to Human Resource Management remained clear. He always expected 100% commitment from his staff. In return, staff were paid salaries above the national averages for the industry. The company invested heavily in training and at the beginning of 2008, Mike persuaded his fellow Directors to introduce a works council. Since its introduction the works council has met monthly and discusses major strategic issues facing the business. Mike has been described as a charismatic and inspirational leader whose staff are fiercely loyal to him and the business. The Human Resource data provided in **Appendix A** seems to support this view.

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### Responding to challenges 2009–now

Since 2009 DWS Ltd has been experiencing increased competitive pressures.

Problems have been caused by foreign rivals:

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- improving their quality so that it is now much closer to DWS Ltd's levels
- charging lower prices.

In response, DWS Ltd has worked to boost its operational efficiency. In 2010 Mike introduced a new approach to operations. This new approach involved three elements:

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- Just in Time production with smaller, more frequent deliveries of inventory
- a 'right first time' approach to quality assurance which involved extensive training for staff
- The creation of kaizen groups to discuss how to make improvements to the business's systems and processes.



Mike estimated that introducing lean production cost around £3 million.

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### An investment decision

The company aims to set objectives that balance profit and Corporate Social Responsibility. Its environmental performance is of particular interest to Mike. Prompted by increasing energy costs, the business is currently considering whether to invest £1 million in a project to fit solar panels to the roof of its factory in order to generate most of its own power from renewable sources. This is expected to lead to lower annual energy costs, although there will be some running costs – see **Appendix D**.

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### The future

Mike is under pressure from several Directors to adjust the corporate strategy for the next five years. Foreign rivals are becoming ever more competitive and most of Mike's attempts to cut costs have only seen limited success. Mike's proposal for the new strategy is to produce only the very highest value added, technically difficult items. This would involve stopping attempts to keep prices competitive by cutting costs. Some Directors would prefer the business to move downmarket instead. They want to target a wider market segment by reducing labour costs and levels of customer service as well as some expensive elements of being a socially responsible business.

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The agenda for next week's Board meeting will feature discussion of:

- the proposed investment in solar panels
- corporate strategy for the next 5 years.

The group of unhappy Directors plan to present a SWOT analysis of DWS Ltd to Mike at the meeting.

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### Appendix A Human Resource performance data for DWS Ltd versus Industry average

	2003		2008	
	DWS Ltd	Industry average	DWS Ltd	Industry average
Labour turnover (%)	5	15	2	10
Employee costs as a % of turnover	60	48	65	50



**Appendix B** Operations data for DWS Ltd versus Industry average

	2008		2013	
	DWS Ltd	Industry average	DWS Ltd	Industry average
Faults per 1000 units made	5	12	1.5	8
Cost of 1 tonne of sheet metal (£) (DWS Ltd's raw material)	1100	1000	1350	1050
Average value of finished goods inventory (£m)	4	5	0.1	3

**Appendix C** Selected financial data for DWS Ltd

	2008	2013	2018
Number of customers placing orders	2400	2000	1500
Revenue (£m)	36	40	33
Profit for the year (£m)	3	2	0.2

**Appendix D** Investment appraisal data on fitting solar panels to reduce energy costs

Initial investment = £1m

Year	Reduction in energy costs (£m)	Running costs to maintain solar panels (£m)
1	0.3	0.2
2	0.7	0.3
3	1.0	0.3
4	1.3	0.3

**END OF SOURCES**

