
INTERNATIONAL A-LEVEL **BUSINESS**

Unit 3: Business Strategy

Insert

Source One: Yorkshire Toys

Source Two: Fusion

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Yorkshire Toys (YT) is a manufacturer of toy trains and aeroplanes. Its head office is based in Yorkshire (UK) and currently all its sales are in the UK. Its main objective is to achieve a minimum of 27% return on capital employed.

Ten years ago, due to rising wages in the UK, YT made the decision to offshore its manufacturing facilities to Vietnam. Lower wage rates and more relaxed labour laws made Vietnam an appealing location for making toys. However, the Operations Director is concerned that Vietnam is not as cost-effective a location as it once was, due to:

- rising fuel and shipping costs
- changes to labour laws in Vietnam leading to an introduction of a national minimum wage (although this is still below the UK rate)
- an increasing number of products that must be returned due to quality issues.

YT's Marketing Director wanted to investigate the main reason for falling profitability over the last few years, so he conducted an analysis of the industry using Porter's Five Forces. Some of his findings are listed below.

- YT's customers are not loyal.
- There are high barriers to entry in the market.
- Existing businesses benefit from economies of scale.
- There is a large threat from digital alternatives eg, iPads.
- There are a large number of existing competitors.
- YT has a choice of many suppliers.
- YT buys in large quantities.

Table 1: Selected financial data for YT (year ending December 2024)

Operating profit	£82m
Non-current liabilities	£240m
Total equity	£170m

The Marketing Director is keen to create a strategy for future growth. The toy market in the UK is big but saturated. Two options being investigated include:

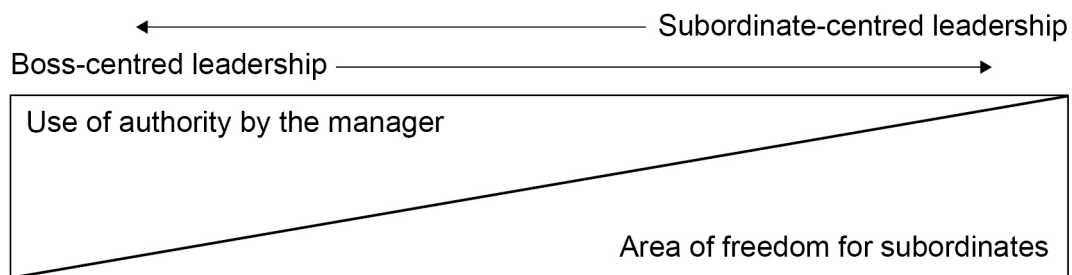
- Option A: Targeting international markets – this would involve selling toys in overseas markets. These markets are growing at a faster rate. Emerging economies in Asia have been identified due to the rising population of middle-income earners. The Marketing Director does not believe that products would need to be adapted much to suit these new markets.
- Option B: Selling a range of digital toys in the UK such as robots and electronic tablets. This option would bring a higher cost in terms of new product development, but this is a growth area within the UK that has not been taken advantage of by YT.

Source Two: Fusion

Fusion is a luxury restaurant based in Dubai, which is a city in the United Arab Emirates (UAE). It combines Italian food with a range of different cuisines including Indian, Spanish, and Turkish. Fusion was founded by experienced chef and restaurant owner Rashid Ali.

Fusion employs three full-time and three part-time members of staff. Waiters receive a large amount of training to prepare them for their role, so they can deliver a high-quality service to customers. Rashid's employees are usually relatively young; particularly the part-time members of staff who may work during busy seasons before going to college or university.

Figure 1: Tannenbaum Schmidt Continuum



Rashid's management style is boss-centred (see **Figure 1**). Some staff have complained about his direct style, and it has even caused employees to leave in the past. Rashid's restaurant manager has suggested that he might want to consider a more subordinate-centred leadership style.

Fusion prides itself on using locally sourced ingredients. These are ethically and sustainably sourced and always seasonal. Rashid considers the high quality, local ingredients to be the unique selling point (USP) of his business. Rashid has built a strong relationship with his suppliers. The restaurant has been so successful, he is considering changing it to a franchise. This would involve attracting three franchisees who would each open a restaurant in a different part of the UAE.

In addition, Rashid wants to open a second restaurant in Dubai (15 miles away). Rashid has created a net cash flow forecast for this option (see **Table 2**).

Table 2: Net cash flow forecast

Year	Net cash flow (\$)
Y0	(120 000)
Y1	(10 000)
Y2	75 000
Y3	110 000
Y4	124 000

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