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NATIONAL
QUALIFICATIONS
2014

MONDAY, 19 MAY
1.00 PM – 3.45 PM

BUSINESS
MANAGEMENT
ADVANCED HIGHER

100 marks are allocated to this paper.

Candidates should spend 15 minutes reading the case study material and the questions.

Answer **all** questions in Section One (50 marks).

Answer **two** questions in Section Two (50 marks).

Note: The questions are printed on a separate sheet inserted inside the front cover of this paper.



JOHN MENZIES PLC

Background Information

John Menzies plc has its head office in Edinburgh. It was established in 1833 and is famous historically for retailing newspapers and magazines. During the 1990s retail profits slumped dramatically. In 1998 Menzies decided to dispose of the retail section of the business, which it sold to W H Smith for £68m. This deal allowed Menzies to concentrate on its distribution division. Menzies Distribution is a major distributor of newspapers and magazines throughout the United Kingdom.

The move into aviation

In 1989 Menzies decided to move into the aviation industry with a small scale acquisition. Proceeds from the retail sector sale provided it with the extra investment to strengthen the aviation division. It purchased several air cargo handling companies to become Menzies Aviation.

The aviation market was identified as an ever expanding market with an outstanding potential for growth. The market is currently worth £37bn. At the time many airlines were outsourcing key services such as ground handling (check-in, baggage services, passenger lounges and aircraft towing) to non-airline companies. Aviation offered Menzies the opportunity to apply its highly developed distribution skills to a new industry offering remarkable parallels to the core activity that had been Menzies' main business for more than 150 years. As with Menzies Distribution, it involved moving time-sensitive products from one point to another. At the time Menzies had little experience of managing a large, complex global operation, but now Menzies Aviation is an international business with operations all over the world.

Strategy

Menzies' operations involve moving people and products from one place to another (logistics). Both the Distribution and the Aviation divisions operate in distinct Business to Business (B2B) sectors, where success depends on providing an efficient, high quality, time critical service to their customers and partners. Menzies' strategy is to innovate in order to continually improve service, quality and efficiency.

Growth

Menzies seeks to achieve growth by a combination of winning new contracts, organic expansion and acquisitions. Menzies feels that the distribution division is operating in a challenging environment and does not have much potential for growth, whereas the aviation division is well placed to grow.

Menzies Aviation

This division aims to expand its presence at existing airports and increase its contracts at other airports across the globe. It is achieving this growth through both organic growth and acquisitions.

Menzies Aviation devolves operational management geographically at the companies it has acquired in order to identify new opportunities for expansion.

In 2006, Menzies Aviation paid £17m to purchase Aeroground, which provides air cargo handling services at 9 airports in the US and Canada. Whilst Menzies already had a presence at 4 of the airports, 5 of the locations were new to the firm.

Exhibit 1 gives more examples of acquisitions made by Menzies Aviation.

Menzies Distribution

For several years the magazine market has been difficult, as customer demand for monthly magazines has fallen. This change of consumer preference is partly linked to the growth in digital choices that people have today, with increasing numbers using the Internet and mobile phones to get their information. As a result organic growth became important to the success of the distribution division. In 2008, a joint venture between John Menzies and Hachette Distribution Services Customers launched Menzies Digital, a virtual magazine wholesaling venture, which both companies felt could become “the iTunes of the magazine industry”. Menzies Digital is now embedded in the websites of WH Smith, ASDA and ITV.com amongst others and offers a large range of the UK’s top selling titles such as Heat, FHM and PC Pro.

Contracts

Both divisions have to bid for contracts in order to gain new business. Menzies believes that it can retain existing business and gain new contracts by being better than its competitors.

Exhibit 2 gives examples of contracts won by John Menzies.

Fix-Close-Sell

This is a programme of network rationalisation undertaken by the Aviation division. If any service is underperforming at an airport its policy is to fix it, close it or sell it. In Amsterdam, it persevered and brought the operation back into profit within 2 years, whereas it sold its underperforming operation in Atlanta, USA in 2008.

Information and Communications Technology

Menzies is investing in new technology to provide benefits for both divisions. In Menzies Aviation new media is being utilised to bring news bulletins to all employees’ e-mail addresses and to mobile devices, for dynamic relay of important news. Links are incorporated into the bulletins to aid immediate and frank feedback from employees.

A new and more inclusive intranet is being developed, able to be adapted down to individual team level. Division-wide and interest-group communications are delivered using this medium.

Menzies Distribution is also concentrating on improving the service it provides to customers by extending its website. Retail customers can now access a variety of online help in areas such as sales promotion and training through its website.

Vehicle Routing and Scheduling Software

The division also invested in Vehicle Routing and Scheduling (VRS) software designed to plan the distribution of newspapers and magazines to retailers as quickly and cost effectively as possible.

Each night, Menzies processes approximately 1,500 tonnes of newspapers and magazines through 39 depots, and then out to over 25,000 retail premises throughout the United Kingdom. It is the only wholesaler to do so on a nationwide basis. The operation delivers over 6m newspapers and magazines per day against a very tight turnaround time. Products arriving from publishers through the early hours are cross-docked, picked and packed ready for delivery to the retailer. High speed, good organisation and a superbly efficient distribution service are paramount when the product has such a short shelf life.

As each depot acquired more business, and individual newspaper and magazine weights increased relentlessly, delivery rounds became ever larger and heavier. It was increasingly necessary to split and re-split runs. As the scale of this problem grew, it became more and more difficult for manual scheduling to cope with.

VRS software provides a high-tech and cost effective tool to help best improve customer service levels, whilst managing transport costs. The system provides the routes very quickly. However all routes are reviewed by local planners, with vital local knowledge, refining the results and ensuring practicality.

It is also used strategically to test the effects of alternative scenarios and has enabled Menzies to venture into new markets confident that it knows what to expect.

Employee Initiatives

Menzies believes it is “the passion of our people that delivers an outstanding performance time after time” for its customers. The Group offers a number of initiatives to encourage that passion. Some of these are:

- Leadership development initiatives—the “Leading from the Front” programme in Menzies Aviation provides supervisory level employees with basic leadership skills.
- SPIRIT—Safe & Secure, Passion, Integrity, Reliability, Innovation and Teamwork. This is a programme delivered by local management. Its purpose is to ensure that employees buy into the SPIRIT principles reinforcing the “Menzies Way”.
- Whistle-blowing phone line—encourages employees to report suspected malpractice by employees or partners. Employees can assume they will be treated confidentially.
- Community Team Challenge—30 of the company’s highest performing managers formed 3 teams to work with local people to complete projects to help children in South Africa, Romania and India.
- GO Team—a crisis management team comprising staff of the highest level of experience to deal with emergency situations. This team will work in a variety of global airports alongside staff they would not ordinarily meet.
- Crew Room Briefings—held at each airport to disseminate news informally where employees are encouraged to raise issues or concerns.

Exhibit 3 gives information on Menzies’ awards and achievements.

Exhibit 4 gives financial information about Menzies.

[The above information is taken from John Menzies Annual Reports 2004–2011. Additional information came from company website at www.johnmenziesplc.com.]

NB Unless stated otherwise, the above, and the accompanying exhibits, are current at 1 October 2012 and refer to the situation at that date.

Exhibit 1: Some Examples of Acquisitions and Disposals by Menzies Aviation

2012

Acquisition of Flight Support, a UK ground handling business. Menzies will pay £4.75m in cash with a further £0.5m payable over 2 years. Flight Support handles around 34,000 turnarounds per annum. This acquisition adds Aberdeen, Isle of Man and Guernsey airports to Menzies' ground handling network. It will add 314 new employees to Menzies Aviation.

Menzies will close its cargo handling businesses at Birmingham, East Midlands, Glasgow and Manchester Airports. The UK cargo business, which handles high end perishable goods, will now be centred on London Heathrow Airport. The company will take a one-off hit of £3m. Due to the excess capacity there will be job losses, but these will be minimal. Menzies aims to return the UK cargo operation to profitability.

2011

The acquisition of Prague Airport Ground Handling Unit (PRA GHU) added several new airlines to the Menzies portfolio in Prague, increasing the Menzies Prague business by 30%.

2008

Acquisition of Novia Sverige, a ground handling business operating at Stockholm and Gothenburg airports in Sweden. Menzies paid EUR 8.75m cash for the business.

Acquisition of MMA Consolidators Pty Ltd, (MMA). MMA is an airfreight wholesaler based in Johannesburg, South Africa.

2007

Acquisition of Universal Air Cargo Pty Ltd (UAC). UAC is an international wholesale freight forwarder operating at 11 locations in Australasia and the USA. There were significant synergies with Menzies.

2006

Perth Cargo Centre Pty Ltd, an Australian cargo handling operation on the West coast was bought. At the time Menzies Aviation already had operations at Sydney and Brisbane airports in the East.

2005

Menzies signed a 10-year contract with the Chengdu Airport Authority (CAA) in China, forming a joint venture for passengers, cargo and aircraft handling. This gave Menzies a 40% stakeholding. In 2010, it withdrew from the venture as it did not have management control.

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Exhibit 2: Some Examples of Contracts for John Menzies Plc

Menzies Aviation

2012

China Airlines agreed to a 3 year contract for their passenger and ramp business in Sydney, Australia. China Airlines operates to 111 destinations across 28 countries throughout Asia, Europe, America and Oceania.

2011

When Jetstar started up in Darwin, Australia, Menzies secured the contract. This is the division's first contract with Jetstar, an airline company which is owned by Qantas and is fast-growing across the region.

A contract to handle 134 Easyjet flights in Toulouse, France. This is expansion into France for the division.

New contracts at London Heathrow with Kingfisher and China Airlines were secured increasing throughput by 20,000 tonnes per annum.

In 2011, the division won a total of 50 contracts, which will generate £41m of revenue annually. It also renewed 81 contracts, securing £77m of annualised revenue.

2007

Menzies won 3 new contracts at Hong Kong International Airport but sold the business in 2008 for £1.3m in cash after failing to grow at the airport, which was dominated by 2 major competitors.

Menzies Distribution

2012

A 7 year contract with News International, the largest newspaper publisher in the UK, was renewed. This will see Menzies Distribution expand its current footprint with News International to distribute titles in Kent, Lancashire and Northern Ireland. This contract secures £158m of annual sales through to 2019.

2009

Menzies renegotiated its contract terms with Trinity Mirror, one of the largest newspaper publishers in the UK. This will allow Menzies to grow its market share by 5%.

Exhibit 3: Awards and Achievements

Aviation Division

- In 2012, the team helped Alaska Airlines win the prestigious Platinum Baggage Improvement Award. Mishandled baggage costs the industry US\$3bn every year.
- Menzies' Shongololo Lounge at Johannesburg OR Tambo International Airport won the 2012 Priority Pass award for the Lounge of the Year. Premium passengers have a choice of lounges at this airport.

Distribution Division

- The online service i-Menzies ensures retailers and publishers have 24/7 web access to their accounts.
- Menzies was the first wholesaler to develop a smart phone app for retailers.

[Turn over

Exhibit 4: Selected Financial and Other Data: 2011–2008

	2011	2010	2009	2008
Aviation Turnover (£m)	676.8	626.0	507.2	500.9
Distribution Turnover (£m)	1,337.0	1338.2	1218.5	1166.2
Aviation Profit (£m)	32.3	24.6	15.8	14.1
Distribution Profit (£m)	28.8	28.8	28.6	23.9
Group Cash Flow (£m)	39.4	43.8	26.9	(11.1)

Some other information about the company:

Menzies Distribution

- has 4,000 employees at 39 sites throughout the UK.
- handles 5.7m newspapers (6.1m on Sundays) and 2.7m magazines (covering 3,000 titles) every day. Deliveries are made in the early hours of the morning 364 days a year to more than 25,000 retail customers.
- currently has 45% of a £3.8bn UK market.

Menzies Aviation

- has over 17,000 employees worldwide servicing over 500 airline customers at 131 locations in 29 countries.
- currently has a 2% share of a £37bn global market.

[END OF CASE STUDY]

QUESTIONS

Marks

You should spend 15 minutes reading through the case study material on John Menzies plc and the questions.

SECTION ONE

Answer ALL questions.

1. Analyse John Menzies' decision to move into the aviation market. (Your answer must include a force field diagram.) **10**
 2. Assess the extent to which Menzies' employee initiatives help it to harness the passion it strives to instil in its employees. **6**
 3. Menzies Aviation chose to expand its operations abroad by purchasing existing companies.
Using examples from the case study, explore the benefits and costs to John Menzies of this method of Foreign Direct Investment (see Exhibit 1). **8**
 4. Other than acquisitions and joint ventures, explain what John Menzies does to achieve growth across both divisions. **6**
 5. (a) Examine the costs and benefits to Menzies Distribution of the introduction of its Vehicle Routing and Scheduling software (VRS). **6**
(b) Other than VRS, explore the ways in which John Menzies' use of information and communications technology affects both its customers and its employees. **4**
 6. Menzies Distribution worked in partnership with Hachette to enter the digital market. Discuss the reasons for this joint venture. **6**
 7. Using examples from the case study, analyse how Menzies Aviation's policy of Fix-Close-Sell will help the group to achieve its strategy. **4**
- (50)**

[Turn over for SECTION TWO

SECTION TWO

Marks

Answer any TWO of the following questions.

You may illustrate your answers in this section with examples from the case study or from other firms with which you are familiar.

8. (a) Through its Plan A initiative, Marks and Spencer plc is working towards becoming the world's most sustainable major retailer. Discuss the effects on UK businesses of pursuing an ethical approach in their operations. **13**
- (b) Describe what is meant by leadership style and discuss factors that influence the style adopted by managers. **12**
(25)
9. (a) Explore the possible effects on the UK, of a British based multinational expanding its operations overseas. **11**
- (b) Describe the theories of the Human Relations and Scientific Management schools, and explain how each approach could improve an organisation's effectiveness. **14**
(25)
10. (a) Examine the impact of EU membership on UK businesses. **13**
- (b) Teams are an integral part of modern business practice. Describe the stages of group development and explore how this process influences the success of teams. **12**
(25)
11. (a) As businesses adapt to a changing environment they are likely to face some resistance from parts of their workforce. Discuss the methods which could be used to encourage employees to embrace change. **13**
- (b) Analyse how any 2 of the following could improve the effectiveness of a UK business. **12**
(25)
- Quality Assurance
 - Market Research Techniques
 - Budgetary Control
 - Human Resource Planning

[END OF QUESTION PAPER]

ACKNOWLEDGEMENT

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