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22 T R L P 2 - B M M L

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Example
Ejemplo

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Example
Ejemplo

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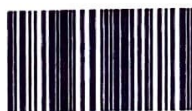
(a) • rapid growth in recent years
• much cheaper than regular
commerce (in most cases)

(b) • a key diseconomy of scale ~~rece~~ received
through rapid sales growth in reaching
capacity utilisation, and the additional costs
that could be experienced. AEC will
"reach capacity within several years,"
meaning they will likely need to
either dissatisfy "loyal customers" with
poorer service, or invest heavily in
increasing capacity. #

• another disadvantage is the overworking of
employees, which could cause demotivation.
Many of AECs' employees are older, and have
specialized skills. If operating at
capacity overwork them, they will both
become demotivated, and unable to provide
those valuable skills to the organisation.

(c) Pricing: moving to another location will likely help AA AEC operate with better net profit margins due to reduced

- Pricing: moving to another location will most likely increase transport costs for AECs products. This is because most of their customers live in the city centre with only 5% e-commerce, meaning that AEC will need to add transport costs to the price of their products. This would decrease competitiveness in the marketing mix.
- Place: operating far from the city will worsen proximity to market. As was mentioned, most of AECs customers operate within the city, meaning they would perhaps find AECs "place" marketing mix less attractive once they move out.



(d) To resolve a liquidity problem, AEC is considering ~~as~~ an option that involves the following three aspects:

- sale-and-leaseback
- change to JIT
- decrease ~~creditor~~ days: debtor days.

There exists a driving and restraining force in each component below:

Driving forces		Restraining forces.
(2) cash injection →	Option	← lose valuable asset (4)
(3) decrease stock turnover →	2	← JIT difficult to manage (15)
(3) free up cash →		← lose loyal customers (4)
Total: 8		Total: 9.

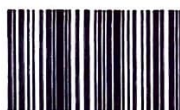
Ratios: debtor days = $\frac{2176000}{24000000} \times 365$

= 33.09 days
↳ industry standard ~35 days

Stock turnover = 35 days

Creditor day = 30 days

The sale and leaseback is a valuable ^{source} ~~test~~ that can be used to resolve a liquidity crisis, as valuable assets can be sold for large sums of cash, then leased back at comparatively low prices. For AEC, this would provide a much needed cash injection, helping them to survive the short term liquidity crisis, as their property is going to be a very valuable asset on their



balance sheet (property prices have risen since the original construction). However, in this exists a significant restraining force, as the sale of the fixed asset will prevent AEC from benefitting from future increase in land value. Relying on this to make short term outlay would ~~deprive~~ reduce future liquidity (due to leasing) and, due to the "freeclocked to increase further" land costs, would ~~make~~ a significantly harm AECs future balance sheet. This major restraining force ("4") is a likely indicator that this component of option 2 should be ignored.

A change to JIT manufacturing would offer a significant driving force to AEC, as they will be able to reduce stock turnover due to the increased efficiency that JIT provides. Their current 35 day stock turnover, despite their ~~own~~ proximity to market, is indicative of AECs limited ability to handle their JIT stock control system, which was identified in the stimulus as a leading issue with respect to liquidity. Stock is expensive and wasteful to hold, hereby constituting a driving force of "3" for the option. However, JIT requires ~~many~~ highly skilled workers and managers. AECs current ~~poor~~ management of sales growth hints that they do not have the skills to adopt JIT. However, highly skilled ~~best~~ workers



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with "specialized skills" will be invaluable in adopting this strategy. AEC must look at bringing on additional skills to adopt JIT to ensure they can still meet their loyal B2B, local customer's requirements, but this driving force determining force is not a very large one for AEC.

Finally, decreasing trade debt days from the calculated value of ~~33~~ to approximately 30 (see calculation of 33) to - 15 would place AEC at a competitive advantage. Business customers will be highly reliant on an industry standard, or better, number of days to pay their suppliers (in this case, AEC), and decreasing to half their current industry standard of "30 to 35 days" could be disastrous in meeting the expectations of their local, loyal customers. However, the driving force for this option shows that decreasing debt days by half would improve liquidity, as AEC would be able to access their customer's funds. This, however,



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is outweighed by AECs reliance on local, loyal customers for 95% of their revenue.

In conclusion, it was identified that AEC should not participate in a take and leaseback or that would see a loss in a valuable asset. Also, the decreasing of debtor days would place AEC behind the industry average. Provided they have ~~etc~~ adequate skills to do so, AEC should adopt JIT, as it was identified that this would provide them with decreased stock turnover. Overall, however, option 2 is seen as unfavorable, which can be seen in the prior reasoning and the FFA, "8" vs "9", restraining.

