

Think Ahead

**ACCA**

# **STRATEGIC BUSINESS LEADER**

SPECIMEN EXAM 2 PRE-SEEN INFORMATION

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SPECIMEN

# 1. Introduction

Yexmarine is a leisure boat manufacturer based in Neoland. Yexmarine builds cruising yachts and offers a boat repair and maintenance service.

Yexmarine has a financial year end of 30 June.

It is currently August 20X3.

## 2. Leisure boat industry information – Neoland

### Overview

The use of boats in Neoland for leisure and recreational purposes can be traced back three hundred years when the first Neoland yacht club was established. The first boats were reliant on wind power and had sails or were rowed. This changed with the invention of engines which were incorporated into motorboats. Since then, boats in Neoland have continued to evolve to operate safely and more efficiently.

Today there are over 300 yacht clubs and 43 marinas in Neoland. In 20X2, revenue in the Neoland leisure boat industry was \$850m across 468 different business which employed over 10,600 people.

Most leisure boats are made of fibreglass and benefit from electronic safety equipment. There is a wide range of leisure boats available to purchase in Neoland, but the most popular types of boats for recreation and leisure activities are cruising yachts, sailing dinghies, sport fishing yachts and luxury yachts.

**Table 1: Boat type descriptions**

Boat type	Image	Description
Sailing dinghies		Sailing dinghies are small boats with a simple design, few controls and less technology. They are designed to be sailed in calm waters.
Cruising yachts		Cruising yachts are powered by wind in their sails, with an engine for use if required. They are designed for use near the seashore and have facilities on board for overnight accommodation.
Sport fishing yachts		Sport fishing yachts are larger than cruising yachts and have more powerful engines. They are designed for deep water conditions and can go a long distance from land. Facilities on board are often luxurious.
Luxury yachts		Luxury yachts are built on an individual basis and reflect the owner's tastes. They are finished to a high standard of luxury and comfort.

Although all four types of boats are used for leisure and recreational purposes in Neoland, currently only cruising yachts and sailing dinghies are manufactured in Neoland.

**Table 2: Boat type market information**

	Customers	Competition	Average price	Industry average gross profit margin	Industry average operating profit margin
Cruising yachts	Individuals in Neoland and other countries with a keen interest in weekend sailing.	Dominated by three companies in Neoland, but there are also several smaller manufacturers.	\$60,000	40%	15%
Sailing dinghies	Neoland families looking for a simple, relatively cheap boat for day sailing.	15 manufacturers in Neoland.	\$5,000	35%	12%
Sport fishing yachts	Wealthy individuals with a strong interest in fishing, located in Neoland and other countries.	Foreign manufacturers, some only specialising in this type of yacht.	\$250,000	48%	22%
Luxury yachts	Very wealthy individuals in Neoland and other countries.	Foreign manufacturers.	\$400,000+	62%	28%

### Cruising yachts

The market for the manufacture of cruising yachts in Neoland is dominated by three companies: Janrom, Kelabby and Yexmarine. Although there are other smaller companies operating in the same market, these smaller companies generally lack resources. Foreign companies have not, as yet, made a big impact in the Neoland cruising yacht market.

These three companies are different and focus on their own strengths:

- Janrom is well known for its design innovations, which mean its yachts reach their destinations quicker and more smoothly than its competitors' yachts. It regularly introduces new engine and power developments.
- Kelabby's cruising yachts are known for their comfort and style, even though they are not luxury yachts. It offers customers the ability to customise their cruising yachts by offering a selection of additional features which are updated regularly to keep up to date with current trends.
- Yexmarine benefits from a loyal customer base (most of its customers are over 50 years of age) due to its high levels of customer service even though the performance of Yexmarine yachts is inferior to Janrom's yachts, and Yexmarine's range of additional features is more limited than Kelabby's.

## Industry challenges and developments

Shortages of skilled employees in the general leisure boat manufacturing industry is a problem across Neoland. This has led to increases in staffing costs and reductions in margins for manufacturers of all types of boats. A number of leisure boat manufacturers are actively exploring ways of automating the production process in order to reduce the reliance on skilled employees. Some manufacturers have also introduced strict efficiency targets into their production process to reduce costs and improve financial results.

Although most leisure boatbuilders now market their companies and products through their websites, there is still limited use across the Neoland leisure boat industry of e-marketing and social media activity.

Demand for cruising yachts has increased over the last few years. New buyers have entered the market due to extensive social media coverage of the annual Neoland regatta, a week of boat and yacht races, which is now one of the most popular sporting events held in Neoland. There are also international customers who have an interest in weekend sailing and order cruising yachts which are manufactured in Neoland. The cruising yacht industry remains competitive, and companies are under pressure to keep prices at a steady level to maintain their market share.

Last year, stricter environmental regulations came into force in Neoland. These regulations included limits on fishing in many sea areas off the shores of Neoland. This has resulted in a fall in the demand for sport fishing yachts.

## Risks

The most common risks which cruising yacht manufacturers in Neoland face are:

Potential risk	Potential impacts
– Flooding (in certain areas of Neoland)	<ul style="list-style-type: none"> <li>– Interruption of business</li> <li>– Damage to premises, assets, infrastructure and yachts</li> <li>– Compensation to customers</li> </ul>
– Product obsolescence (current and new products)	<ul style="list-style-type: none"> <li>– Loss of income and market share</li> <li>– Poor perception of brand</li> </ul>
– Data security	<ul style="list-style-type: none"> <li>– Loss of customer data</li> <li>– Interruption to operations</li> <li>– Unauthorised access to data</li> <li>– Legal penalties and compensation to customers</li> </ul>
– Reputation risk relating to products and services	<ul style="list-style-type: none"> <li>– Loss of income and market share</li> <li>– Dissatisfied customers</li> </ul>

## Innovation and sustainability

The leisure boat manufacturing industry within Neoland is becoming more innovative due to the pressure to reduce the use of fiberglass in the production process. Although fiberglass is relatively environmentally friendly to produce, it cannot be recycled easily or cheaply. This has meant that leisure boats which have reached the end of their useful life are often taken to landfill.

An increasing number of leisure boats are now being constructed from recyclable materials so that they can be deconstructed and separated when they reach the end of their useful life.

Innovation in relation to the power sources used in leisure boat engines is high. Some leisure boat manufacturers are partnering with motor vehicle engine manufacturers to research and test the use of electric or hydrogen power in leisure boats. Yacht clubs and marinas are investigating the installation of solar powered boat charging stations.

### **Key performance indicator (KPI)**

The key performance indicators in the leisure boat manufacturing industry are gross profit margin and operating profit margin. The average of these indicators varies across the different types of boats and is illustrated in Table 2 on page 3.

### **Industry body**

Companies in the leisure boat building and repair industry are eligible to join the Neoland Marine Boatbuilders Association (NMBA). Quarterly meetings are held to discuss matters which affect leisure boatbuilders, for example, health and safety, environmental legislation, competitiveness and training.

## **3. Yexmarine overview**

### **Background**

Yexmarine is a cruising yacht manufacturer based on the east coast of Neoland. It was established 50 years ago. It specialises in the manufacture of cruising yachts made of fibreglass which it sells direct to customers. Yexmarine's cruising yachts are made in standard moulds, with limited additional optional features available to customers.

Yexmarine also carries out maintenance and repair work on yachts it has constructed and on yachts constructed by other companies and this currently contributes to around 15% of its annual revenue.

Yexmarine has struggled to maintain its cruising yacht market share over the last few years. Recognising these problems, Yexmarine acquired a smaller cruising yacht manufacturer, Bursham Co (Bursham), a year ago, in order to have access to more skilled employees and increase market share.

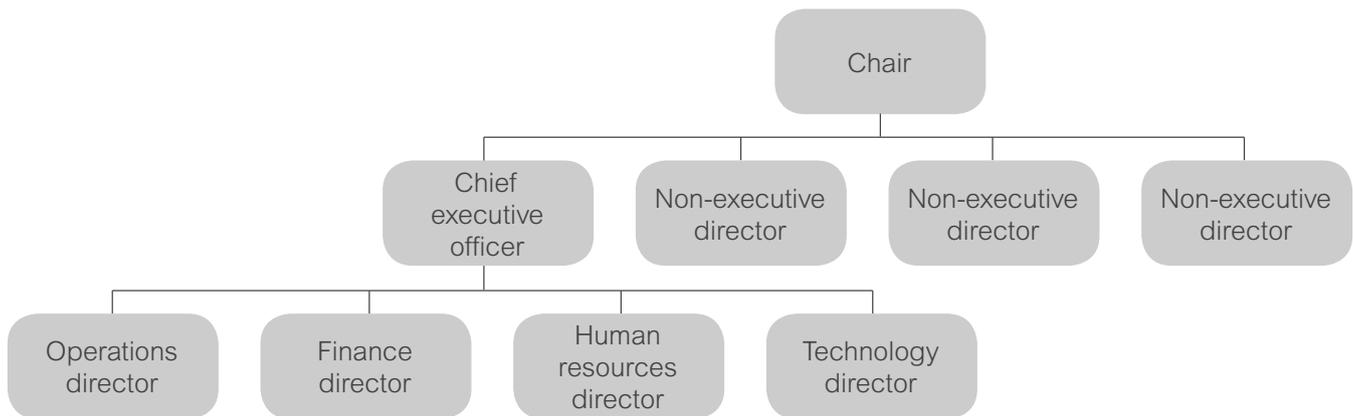
### **Ownership**

After the acquisition of Bursham was completed, Tony Bursham, Bursham's founder and sole shareholder, became Yexmarine's chief executive, in place of Yexmarine's founder who retired from the business.

The board of Yexmarine has five executive directors, including the chief executive, each with a 20% shareholding in Yexmarine. Yexmarine is currently unlisted but may seek a listing in the future.

## Board structure

Alongside Yexmarine's five executive directors there are three non-executive directors.



The role of technology director was created three months ago. There are currently plans to recruit a marketing director, but no appointment has been made yet.

## Information systems

Yexmarine has a website which focuses on highlighting its heritage, reliability and craftsmanship. Emphasis is placed on the high levels of customer service which Yexmarine prides itself on. The website also contains an 'initial enquiry form' which can be completed and submitted by prospective customers. Once the form has been submitted, it is picked up by the customer service team and allocated to a customer liaison officer. The customer liaison officer then initiates further contact with the prospective customer and becomes the personal contact for the customer throughout the buying process.

The website also contains the contact telephone number for the repairs department. Repairs are booked over the telephone directly with the repairs department.

Yexmarine collects data and tracks the activity of its website visitors through its website. Its social media presence is limited.

## Operations

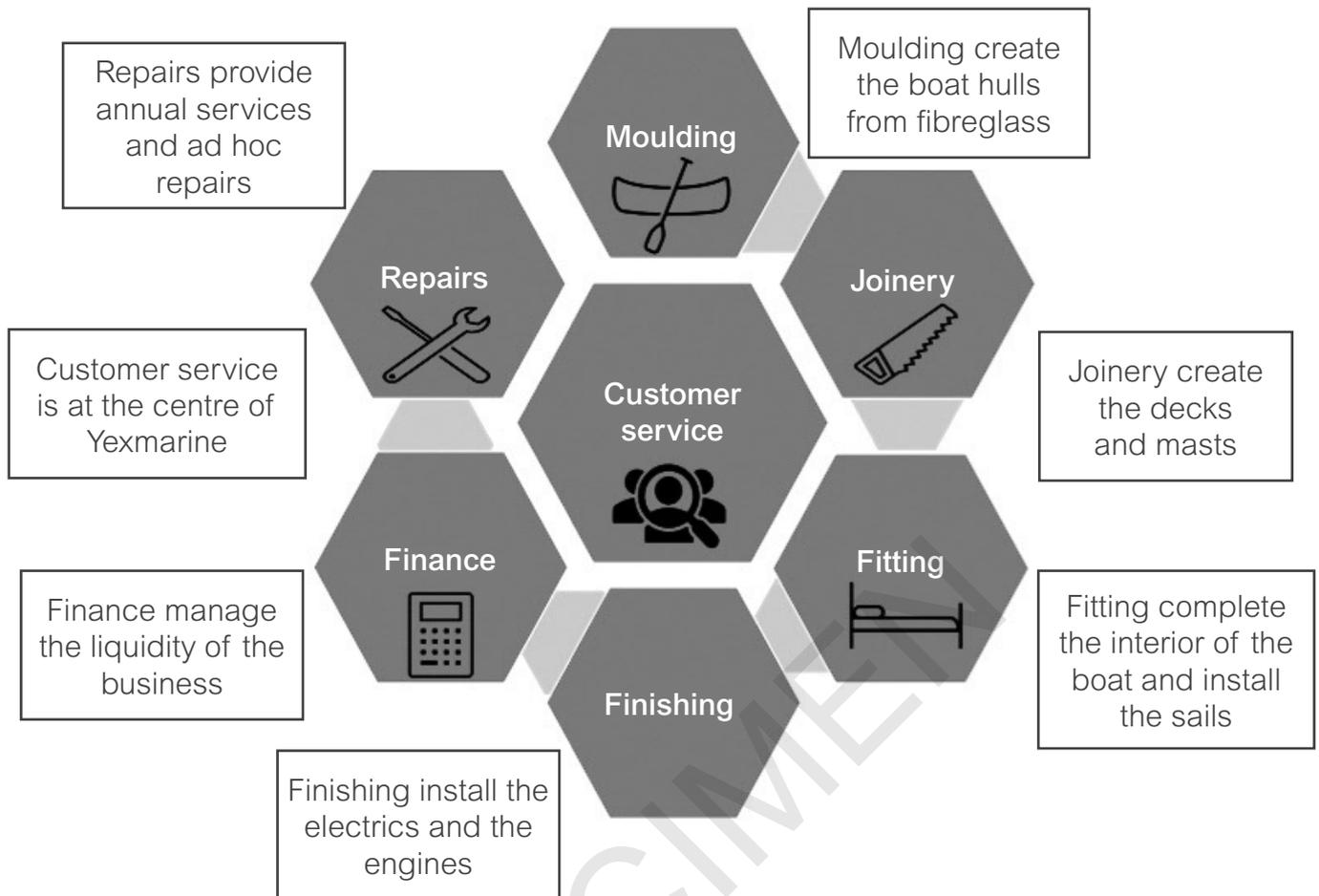
Yexmarine currently operates from two different sites, both located in the town of Hameldon. These two sites are the locations from which Yexmarine and Bursham operated before the acquisition.

Yexmarine's board has recently agreed terms for the purchase of a single large site on the coast at Lympool, the principal yachting centre in Neoland. This will replace both the current sites and will be financed by their sale. The move to the new site in Lympool will take place over the next few months despite forecasts that flooding in the area will become more frequent and severe with global warming.

Tony Bursham wishes to use the move to the new site as an opportunity to transform Yexmarine's business. He wants to introduce more automation in production and improve the standardisation of products and introduce efficiency targets. He has recently announced his plans at a staff briefing to all Yexmarine employees.

Over the next five years, Tony Bursham wants Yexmarine's gross profit margin to increase from 40% to 45% and its operating profit margin to increase from 15% to 20%.

## Departments



## Distribution

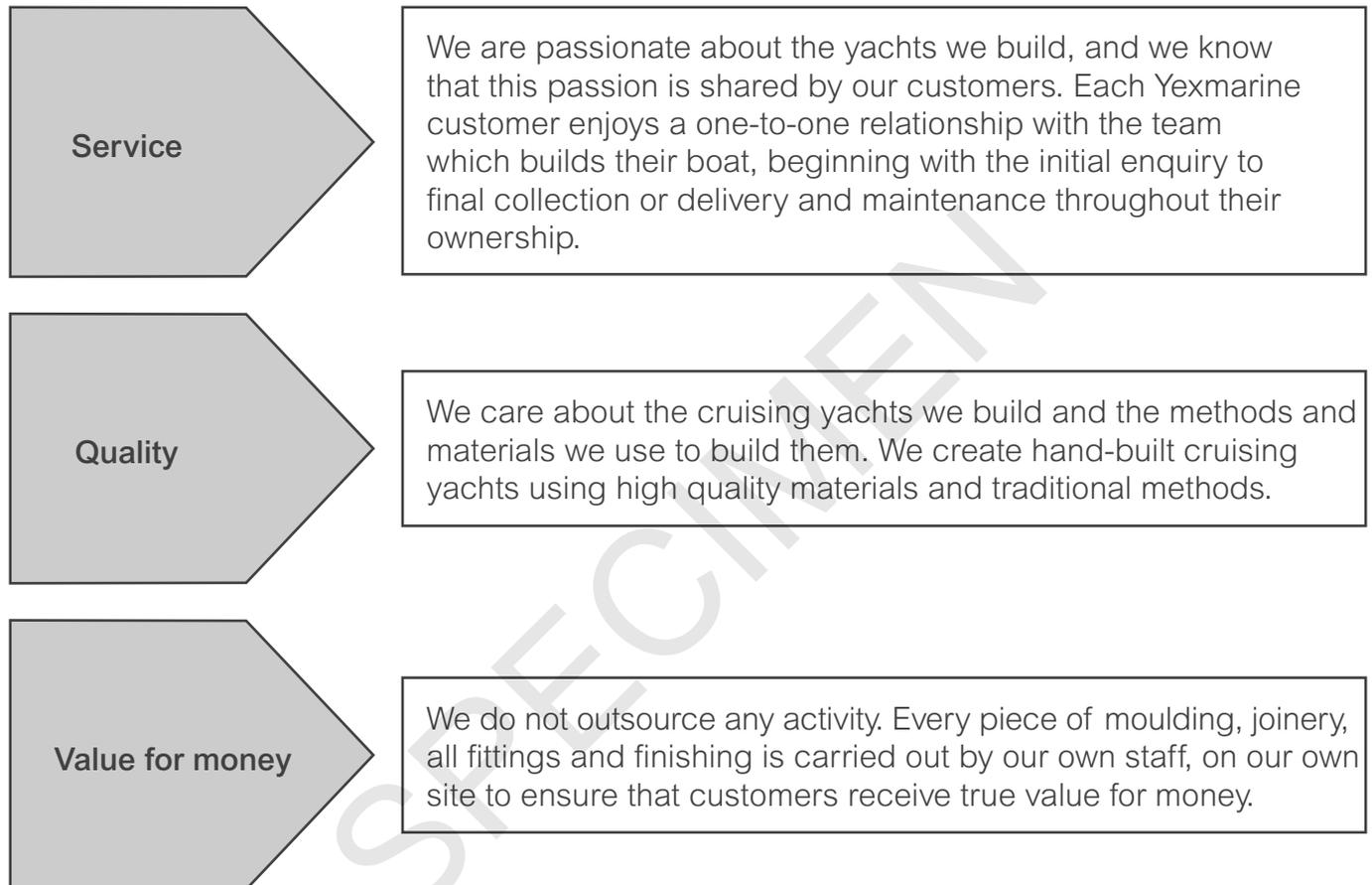
All Yexmarine cruising yachts can be delivered in the following ways:

- Customer collection from either of the Yexmarine sites in Hameldon. When these sites are sold, customer collection will be available from the new Lympool site.
- By a qualified Yexmarine crew to a location specified by the customer.
- Shipped to a number of yacht clubs and marinas across Neoland.

## 4. Yexmarine website extracts



Our values are the centre of our business.



## 5. Yexmarine financial information – selected summary

