General Certificate of Education
Advanced Level Examination
January 2011

Business Studies BUSS3

Unit 3 Strategies for Success

Monday 24 January 2011 1.30 pm to 3.15 pm

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 1 hour 45 minutes

Instructions
- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is BUSS3.
- Answer **all** questions.
- Do all rough work in your answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Formulae for Financial Ratios

Financial ratio	Formula
Current ratio	current assets : current liabilities
Acid test ratio	liquid assets : current liabilities Where liquid assets are current assets – inventories (stock).
Return on capital employed % (ROCE)	$\frac{\text{operating profit}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Asset turnover	$\frac{\text{revenue}}{\text{net assets}}$
Inventory (stock) turnover	$\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$
Payables (Creditors) days **(Payables'* collection period)**	$\frac{\text{payables*}}{\text{cost of sales}} \times 365$ * Payables = creditors throughout this formula.
Receivables (Debtors) days **(Receivables'* collection period)**	$\frac{\text{receivables*}}{\text{revenue}} \times 365$ * Receivables = debtors throughout this formula.
Gearing	$\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Dividend per share (in pence)	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
Dividend yield (%)	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

Read the **case study** and answer **all** the questions that follow.

Burkinshaw plc

Introduction

Burkinshaw plc is a manufacturer of pottery products. It was founded in the UK in 1850 and has established a reputation for producing traditional, high quality products which are sold mainly in the EU and the USA. However, in the past decade, the company has suffered from falling sales owing to competition from cheaper products and declining popularity due to its 'old fashioned' image.

A new Chief Executive, Andrew Mitchell, was appointed. He devised a five-year plan with the objectives of expanding the business and returning it to profitability. Andrew had previously been the Marketing Director of a large Japanese car manufacturer.

Andrew's strategy

Upon his appointment, Andrew's first decision had been to implement plans to improve the efficiency of the UK factories. The workforce was highly skilled and took great pride in the quality of the products which were predominantly handmade. The workers were paid above the industry average and received generous holiday and pension benefits. However, the productivity of the workforce was lower than *Burkinshaw plc*'s competitors.

Andrew was keen to introduce new technology into the production process. He held a meeting with union representatives to explain why the business had to become more efficient. Andrew offered an extensive training programme plus a pay rise for those workers who would use the new technology. Whilst there would be job losses from using the new technology, Andrew offered reasonable redundancy terms.

The union representatives were hostile to the proposals. They did not trust Andrew and believed that he just wanted to cut costs. Many employees whose jobs were threatened had worked for *Burkinshaw plc* for many years and possessed unique skills. When Andrew insisted that the new technology had to be introduced, the union responded with a series of one day strikes. Further negotiations failed and Andrew decided that the best solution was to close the UK factories and transfer production to a purpose-built factory in China.

This decision attracted a lot of media attention as *Burkinshaw plc* was a major employer in a region of high unemployment. Despite pressure from local MPs and unions, Andrew would not make any concessions.

The new purpose-built factory in China commenced production in 2008. The company had invested heavily in new machinery to enable a more modern means of production. Its capacity was double that of the UK factories.

The headquarters of the business remained in the UK and all decision making was centralised. The Marketing, Finance and HR functions were based in the UK, as well as a new research and development centre. Strong links had been established with local universities and the company recruited graduates each year.

In order to achieve the objective of expansion, Andrew's marketing strategy focused on entering new geographical markets. Secondary research into the Chinese economy had revealed a growing number of middle-class customers, particularly in Shanghai and Beijing. A marketing plan was constructed with the objective of achieving a 5% share of the Chinese market by 2010.

The focus of the marketing campaign was upon the traditional, exclusive, high quality 'British' image of the brand. The marketing campaign was launched in 2009 and *Burkinshaw plc* quickly gained a 3% market share.

Despite this encouraging start, the Marketing Director argued that the company's marketing strategy should be to develop new products aimed specifically for the Chinese market. The Marketing Director had been approached by a large Chinese department store interested in placing a large order with *Burkinshaw plc* for an exclusive range of products. This project would require significant communication with the UK based research and development centre. However, Andrew was concerned regarding the potential operational problems that may result from accepting this order as the Chinese factory was already operating at high levels of capacity and there had been increasing customer complaints regarding quality.

Strategy Review

Andrew has a meeting next week with the board of *Burkinshaw plc*. The purpose of the meeting is to review the success of Andrew's strategy to transfer production to China to fulfil the company's objectives.

STATISTICAL APPENDICES

Appendix A: Burkinshaw plc – Financial Information

Summarised Financial Accounts for Year ending 31 December 2010

Balance Sheet	**2010 £m**
Non-current assets (fixed assets)	600
Total current assets	82
Current liabilities:	
Payables (creditors)	(80)
Net current assets	2
Non-current liabilities (long-term liabilities)	(302)
Net assets	300
Total equity (shareholders' funds)	300

Income Statement	**2010 £m**
Revenue (Turnover)	600
Operating profit	175

Selected financial information for year ending 31 December 2005

Revenue (Turnover)	£400m
Operating profit	£(50)m
ROCE	–9.24%
Asset turnover	1.17
Current ratio	1.91:1
Gearing	36.96%

Turn over for Appendices B, C and D and Questions

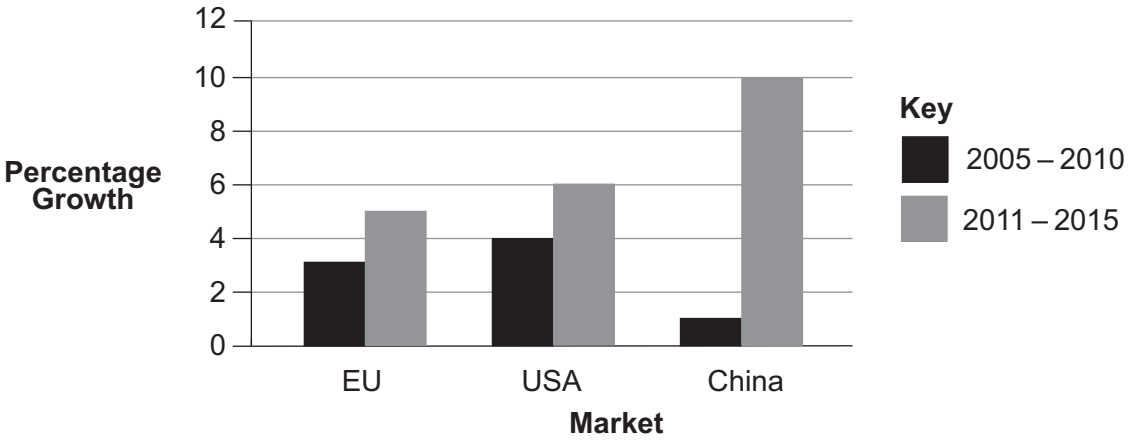
Appendix B: Operations data

	2005 UK factories	2010 Chinese factory
Revenue spent on research and development	3%	10%
Index of real unit cost	100	60
Factory capacity utilisation	60%	95%
Average delivery time from factory to European retailers	10 days	21 days
Defective products	5.0%	7.5%
Total output	6 million units	10 million units

Appendix C: Marketing data

	2005	2010
Number of product lines	50	130
Estimated average price elasticity of demand for *Burkinshaw plc*'s products	–2.5	–1.8
Annual marketing budget	£15m	£25m
Marketing budget spent in China	2%	20%
Estimated correlation between the company's marketing spending and sales for *Burkinshaw plc*'s products	+0.4	+0.7

Actual and forecast percentage sales growth in Burkinshaw plc's markets 2005 – 2010 and 2011 – 2015



Appendix D: Human resource data

	2005 UK factories	2010 Chinese factory
Index of average hourly pay rates for factory workers	100	50
Employees that belong to a trade union	80%	5%
Annual training budget	£5m	£2m
Temporary staff as a percentage of total staff	7%	40%
Senior managers that are non-UK citizens	3%	6%

Question 1

0 1 Analyse the potential operations management problems that may result from accepting the Chinese department store's order. *(10 marks)*

Question 2

0 2 Andrew Mitchell believed that the best solution to resolving the dispute over the introduction of new technology was to close the UK factories and move production to a purpose-built factory in China. Do you agree with this view? Justify your decision. *(18 marks)*

Question 3

0 3 The Marketing Director argues that the company's marketing strategy should be to develop new products aimed specifically for the Chinese market rather than traditional 'British' products. Do you agree that this is right? Justify your decision. *(18 marks)*

Question 4

0 4 Andrew Mitchell's view is that his strategy to transfer production to China has been successful in fulfilling the company's objectives. Using all the information available to you, complete the following tasks:

- analyse the arguments **for** Andrew Mitchell's view
- analyse the arguments **against** Andrew Mitchell's view
- make a justified conclusion on whether you think his strategy has been successful.

You are encouraged to use numerical evidence to support your answer.

(34 marks)

END OF QUESTIONS

There are no questions printed on this page

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