

General Certificate of Education
June 2008
Advanced Level Examination



BUSINESS STUDIES
Unit 5

BU5W

Wednesday 11 June 2008 9.00 am to 10.30 am

For this paper you must have:

- a 12-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 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 BU5W.
- Answer the **compulsory** question in **Section A** and **one** question from **Section B**.
- Do all rough work in the answer book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 84.
Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.

SECTION A

Answer this question. You should spend up to 50 minutes on this section.

Total for this question: 40 marks

1

Hurbank plc

Hurbank plc is a long established British producer of luxury clothing and accessories. Over the past few years, Henry Seeton, the Chief Executive, has revived the reputation and sales of the Hurbank brand, both in the UK and worldwide. Heavy investment in marketing, extensive use of its British image in its promotions and good media coverage have positioned Hurbank as a premium brand. Henry has worked closely with the employees as changes have been made, stating publicly that the employees are the firm's greatest asset. Despite Henry's success, there is always pressure from investors to improve returns further, especially given the falling share price over the past year. At the start of June 2008, Henry was asked by the Board of Directors to consider cutting costs by relocating Hurbank plc's shirt production from Cellton, in the North of England, to China. Cellton has a population of 7000 and an unemployment rate of 11%. The date proposed by the directors for the Cellton factory to close is 30 August 2008.

Henry Seeton has asked you, an independent management consultant, to write a report to the Board of Directors using appendices A to E on pages 4 to 5, analysing the main arguments for and against the relocation. Based on this analysis, produce a fully justified recommendation on whether to switch shirt production to China.

(2 marks are included for appropriate report format)

Turn over for the appendices to Question 1

Appendix A: Human resource and operations data for the Cellton factory

Trade union membership	80% of all employees
Average annual pay of factory floor staff	£18 000 pa
Average annual labour turnover (past ten years)	3% pa
Labour productivity compared to five years ago	+40%
Percentage of shirts returned by customers last year due to defects	0.01%
Existing average lead time to retailers	1 week
Number of redundancies if the closure goes ahead	350
Proposed budget to help redundant staff to find new jobs if Cellton factory closes	£100 per person

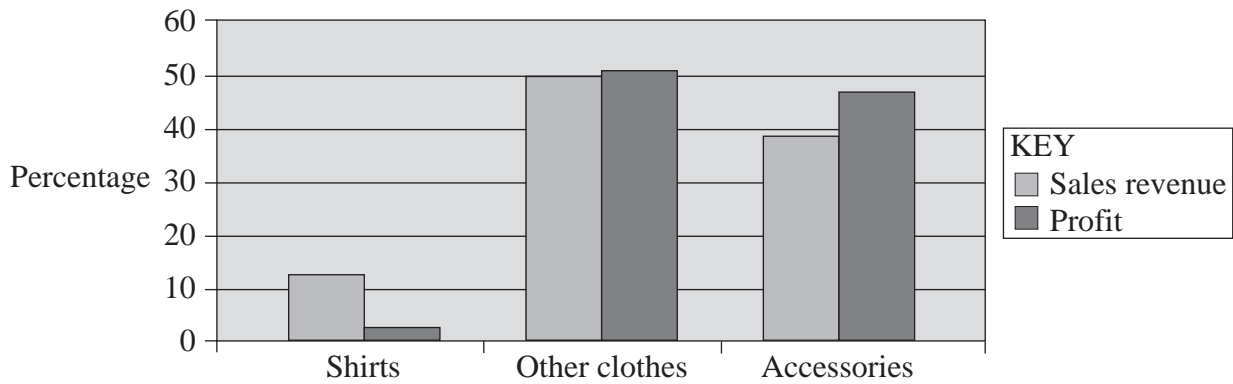
Appendix B: Information on possible Chinese relocation

Unemployment in the region of the new factory in China	14%
Average annual pay within Chinese region	£2 000 pa
Average proposed annual pay for staff in Chinese factory	£2 500 pa
Estimated costs of relocating and setting up in China	£22 million
Net Present Value of the investment (for the first five years)	£5.7 million
Forecasted percentage of shirts returned by customers due to defects if factory is based in China	1%
Forecasted lead time to retailers if factory is based in China	4 weeks
Forecasted change in the value of the pound relative to the Chinese currency (over the next 10 years)	-18%

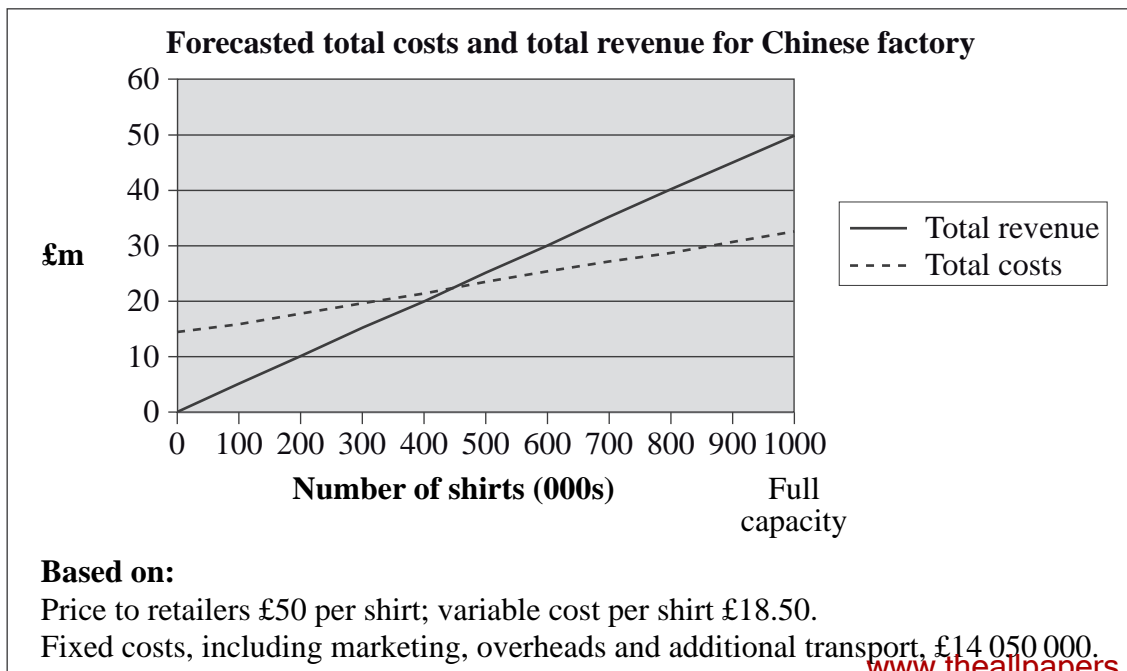
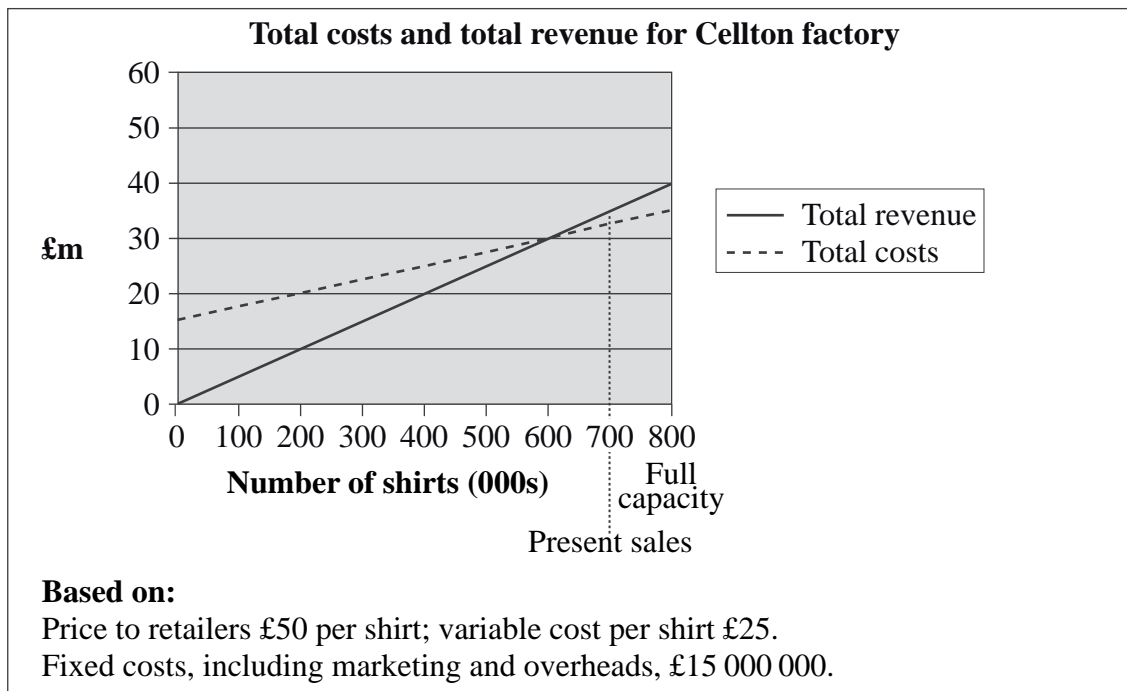
Appendix C: Hurbank plc information

Sales revenue for year ending 1 June 2008	£300 million (+15% on previous year)
Net profit for year ending 1 June 2008	£100 million (+5% on previous year)
Capital employed as at 1 June 2008	£500 million
Number of UK factories including Cellton	3
Percentage of products manufactured in the UK	51%
Percentage of shares owned by international investors including pension funds and banks	55%
Proposed 2008 bonus for directors	35% of salary (increasing average earnings to £1.8m)
Mission statement	“To treat all our stakeholders fairly and with equal respect whilst generating fair returns for our investors and demonstrating the best of British values.”

Appendix D: Proportion of sales revenue and profit earned by Hurbank plc's three product categories last year



Appendix E: Financial data for Hurbank shirts at Cellton and at factory in China



SECTION B

Answer **one** question from this section.

- 2 Ford is a global automobile producer whose brands include Ford, Mazda and Volvo. Ford's recent losses have been blamed on its organisational culture which has been described as too conservative, too centralised and too inward looking. To what extent is the future financial success of Ford likely to be dependent on it changing its culture? *(40 marks)*
- 3 In 2007, Marks and Spencer plc, a leading UK clothes, food and home products retailer, launched a five-year strategy to, "tackle some of the biggest challenges facing our business and our world". This strategy involves working with customers and suppliers, "to combat climate change, reduce waste trade ethically and build a healthier nation". To what extent do other retailers need to follow Marks and Spencer plc's strategy? *(40 marks)*
- 4 In recent years, low cost airlines such as Ryanair and EasyJet have grown rapidly. To what extent does the success of such airlines depend mainly on factors outside of their control? *(40 marks)*
- 5 Apple is a producer of innovative consumer electronic products such as personal computers and MP3 players. The company entered the mobile phones market in 2007. Some analysts have suggested that Apple should now enter the computer games console market. This fast growing global market is dominated by Sony, Nintendo and Microsoft. Should Apple make it a priority to enter the computer games console market? Justify your answer. *(40 marks)*

END OF QUESTIONS

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