



General Certificate of Education
Advanced Subsidiary Examination
June 2014

Applied Business

BS03/PM

Unit 3 Financial Planning and Monitoring

Background Material and Pre-release Research Tasks

To be distributed to candidates no sooner than 3 March 2014

NOTICE TO CANDIDATES

You will be given **one** copy of this Background Material and Pre-release Research Tasks for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

The Background Material and Pre-release Research Tasks will be repeated within the question paper for use in the examination.

You are advised to carry out your own research using this Background Material and Pre-release Research Tasks. It is the business concepts and ideas raised by the Background Material and Pre-release Research Tasks which should be researched.

Your teacher is encouraged to give assistance and advice as required.

Hebden Carpets plc

Most of the carpet that is sold in the UK is imported from Europe and Asia. Hebden Carpets plc is one of the few remaining British manufacturers of carpets. The company was established by the Whyte family in the 1920s and became a public limited company in 1982. It has a reputation for supplying high quality carpets manufactured from man-made fibres such as polypropylene, as well as carpets made from wool (which tend to be more expensive). Hebden Carpets plc has won a number of awards, mostly for its environmentally-friendly manufacturing, and it uses these to promote its products. It benefits from regular appearances in the media and has received praise for employing over 5000 people in its two factories which are located in an area of high unemployment within Yorkshire.

The company sells its products mostly in the UK. However, its Board of Directors has recently implemented a strategy of selling to a number of European markets (including Germany and France), financing its expansion mainly through the sale of shares. It faces increasing competition from many other companies, including a major UK rival, Cormar Carpets Ltd (www.cormarcarpets.co.uk). Since 2004, Hebden Carpets plc's profits have risen slowly, even during the difficult economic period after 2008. However, profits remain low, reaching £12.25 million in 2013, despite sales amounting to over £190 million. Its slowly improving financial performance and valuable brand image led to a take-over bid from a Chinese manufacturer in 2013. However, Hebden Carpets plc's shareholders rejected the bid, believing that the price offered per share was too low.

Despite rising profits, some shareholders are not entirely satisfied with the company's financial performance and are seeking higher profits (and therefore dividends) in the short term. They have opposed some of the Board of Directors' longer term plans which they judge to be too costly and too risky. These include a recovery and recycling scheme for recovering and reusing waste materials produced during manufacturing and from recycling customers' used carpets.

The company has major plans to expand its operations further. The first stage of this plan is to manufacture vinyl flooring for use in kitchens and bathrooms. An investment of £124 million is needed for a new purpose-built factory in Poland. This will be financed by a share issue and a further bank loan. The factory's products will be sold throughout Europe where the volume of sales of vinyl flooring products has risen steadily since 2000.

Hebden Carpets plc has conducted thorough primary market research as part of its financial planning for expansion. A number of large multinational companies supply the European market for vinyl flooring, making it highly competitive. Despite this, profits from vinyl flooring are approximately 50% higher than those from carpets. The company has a good distribution network in Europe and good relations with many major retailers.

Pre-examination Research Tasks

- (a) Hebden Carpets plc operates as a public limited company. Research the advantages and disadvantages to its stakeholders of operating in this way.
- (b) Investigate the major issues that a company may consider before deciding whether or not to undertake a large investment.