

General Certificate of Education
January 2003
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 3

BUS3

Tuesday 21 January 2003 1.30 pm to 3.00 pm

In addition to this paper you will require:

a 12-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or 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 BUS3.
- Answer **all** questions.
- The Case Study is printed on pages 2 and 3 which can be unfolded.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 84.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate.
- The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.
- Up to 4 marks will be awarded for the quality of your written communication.

Read the Case Study and answer **all** the questions that follow.

The Receiver

“Who’s that?” asked Taniya.

“Dunno” replied Nadir, keeping his eyes on the robot as it stitched the car seat-cover slowly but precisely. Taniya kept watching as three large men in suits walked towards the Managing Director’s office. Then a forceful, unknown voice boomed over the loudspeaker: “Staff must assemble in the canteen immediately”. Nadir knew what was coming. A week before he had seen visitors looking over the machines, seemingly valuing them. Now he knew that Shaftons Ltd was being liquidated. 5

The canteen presented an extraordinary scene. A well dressed young woman was flanked by three men who looked like nightclub bouncers. Behind them stood Simon Shaft, the Managing Director. When the 120 staff had assembled the young woman announced: “I am the newly appointed Receiver of Shaftons. I am sorry to announce that the factory is being closed immediately. Please leave the premises within 60 minutes. Only take your own possessions with you. My colleagues will search everyone before leaving. Staff who have been working here for more than two years will receive statutory redundancy pay. Any questions?” 10

After a stunned silence, Taniya shouted “What’ve you got to say for yourself Shaft?” There was no response. “Why did you come to work by taxi today Shaft? Where’s that flash company BMW?” Still no response from Shaft, though the Receiver raised an eyebrow. 15

An hour later Taniya, Nadir and Loriane (the newly unemployed Sales Manager) were in the pub. Taniya was quite tearful at being treated so coldly after 10 years: “He didn’t even say sorry!” Nadir was also upset that “I was just coming up to two years, so I get zero redundancy.” Loriane was even more bitter: “I’ll never forget the awful impact of that announcement on everyone’s faces. Shaft’s wrecked this business, yet he’s taken £270 000 in salary in the three years he’s been the boss. He never even warned us so that we could start looking for work elsewhere. But you were great, Taniya, having a go like that.” After a while Nadir persuaded Loriane to explain the full story: 25

“Four years ago we were profitable. Then the business was sold to Shaft. At first it was OK, then Simon decided on that shift to new technology. He was convinced he’d double sales within three years, so in came all those robots and automated machines. He thought they could work through the night without supervision. The purchase was financed through a sale and leaseback deal that meant huge monthly fixed overhead costs. It would have been OK if the sales growth had arrived, but it didn’t.” 30

She carried on: “At first we were helped by the weakness of the pound against the dollar, but when the American economic downturn began in Spring 2001, we were hit hard. Our contract supplying the American giant General Motors was cut by 25%. Then came the Autumn collapse in the aircraft market and the cancelled orders from Boeing. All through that period Shaft was in China trying to drum up business from the Chinese State railway. Nothing came of it.” 35

“Sounds quite unlucky when you put it like that” said Taniya.

“Well”, continued Loriane, “lots of things were Simon Shaft’s fault. He was so focused on the short term that he could never think far ahead. He just loved his budgets. Once, when I was trying to meet my sales budget, I negotiated an order that proved too big for us to handle. In fact, not only did we make a loss on that contract, but the client was so unhappy with the production quality that he cancelled other, profitable business!” 40

Nadir chipped in: “I started to worry when Simon brought in that personnel woman as Deputy Managing Director. She kept talking about stakeholder responsibilities and empowerment, but never seemed to do anything to help pay for her salary and BMW. And she was the one who insisted that we go on working when that soldering machine started giving off those fumes. I’m sure health and safety laws were being broken. Someone asked her whose stakeholder responsibilities were involved when staff were being poisoned! Still, looking back, I suppose she may have known how desperately we needed any profit we could make.” 45

The following morning Nadir slept until woken by the phone at 10.30. It was Loriane explaining excitedly that a major customer was pleading with her to find a way to keep producing their regular order for 500 railway carriage seats per week. By the end of the day Loriane, Nadir and Taniya put together a plan. The accountant from Shaftons gave them some advice, and was happy to help them on a part-time basis. 50

The client was prepared to invest £50 000 to buy the relevant machinery from the Receiver and to help set up the business in a rented factory unit. Loriane, Nadir and Taniya would each invest £5000 and have a 20% stake in a newly formed private limited company (the client would hold the other 40%). Each seat should contribute £25 towards the estimated weekly overheads of £6000. This would generate a profit that could be invested in researching other potential markets for their products. Taniya’s father was the only one to strike a sour note: “It’s all too rushed. You haven’t even met the client who will be your major shareholder. Are his interests the same as yours? Haven’t you ever heard of the divorce of ownership and control? All he wants is an order fulfilled, whereas you three are talking about building a major business.” Helpfully, though, he did provide a table of economic forecasts based upon the latest estimates made by City analysts. 60

To the delight of Taniya, Nadir and Loriane, TNL Ltd was up and running in three weeks. 65

APPENDIX A

UK ECONOMIC FORECASTS FOR COMING PERIOD			
	Next 6 months	In 7–12 months	In 13–18 months
Interest rates (%)	3.5%	3.25%	3.25%
Exchange rates (£ v \$)	£1 = \$1.50	£1 = \$1.60	£1 = \$1.65
Unemployment as a percentage of the UK workforce	3.9%	4.1%	4.3%
Inflation (annual percentage change in RPI)	1.7%	1.4%	1.3%

- 1 Explain the business significance of the following phrases:
 - (a) 'shift to new technology' (line 27); *(5 marks)*
 - (b) 'divorce of ownership and control' (line 62). *(5 marks)*

- 2 To what extent does the evidence in the case study support Loriane's view that Simon was very 'focused on the short-term' in his business objectives and strategy? *(15 marks)*

- 3 Explain why an economic downturn might cause such difficulties for manufacturing businesses such as Shaftons Ltd. *(10 marks)*

- 4 To what extent should the senior management at Shaftons feel responsible for the 'awful impact' of events on the firm's stakeholders? *(15 marks)*

- 5 Discuss whether Taniya, Nadir and Loriane are right to form a private limited company in the start-up of their business. *(15 marks)*

- 6 Within six months Loriane is hoping to win back some of the large export contracts held by Shaftons. Use the data in Appendix A and the information in the case study to evaluate whether this is a wise move for the business. *(15 marks)*

END OF QUESTIONS