

## **Friday 24 May 2013 – Morning**

### **GCSE BUSINESS STUDIES**

**A293/01/CS Production, Finance and the External Business Environment**

#### **CASE STUDY**



**Duration: 1 hour 30 minutes**

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- You may **not** take notes into the examination.

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## INTRODUCTION

AS plc is a manufacturing business producing expensive sports cars. It is based in Bowton in the county of Moorshire. Bowton is an area in need of regeneration.

## SECTION ONE – 2011 PERFORMANCE DATA

1. At the end of 2011, AS plc announced its best sales figures ever. Its cars had sold particularly well in the developing economies known as the BRIC economies – Brazil, Russia, India and China. The increase in sales and profits was put down to the continued growth in these developing economies which have seen a strong rise in employment. The cars are expensive and, because only a limited number are produced, they are seen as ‘special’. AS plc cars are seen to be expensive and exclusive and buying these is a way in which the rich in the BRIC countries can ‘show off’ their wealth. The sales and profits of AS plc also rose in the UK, but not by as much as in the BRIC economies. The UK economy was experiencing very slow growth in 2011. 5
2. Fig. 1 shows the profits of AS plc in 2010 in selected markets and the percentage changes in profits in those markets in 2011. 10

**The profits of AS plc in 2010 in selected markets and the percentage increases in profits in those markets in 2011**

Country	Profits in 2010	Percentage increase in profits in 2011 compared with 2010
Brazil	£4m	100
Russia	£3m	33
India	£10m	40
China	£12m	50
UK	£8m	5

**Fig. 1**

## SECTION TWO – PRICES AND EXCHANGE RATES

1. Fig. 2 below shows the prices at which AS plc cars are sold in the UK, other European Union (EU) countries and China. The prices are given in pounds sterling (£s). 15

**Prices of AS plc cars in the UK, other EU countries and China**

Model of car	UK	Other EU Countries	China
AS1	£80 000	£80 000	£240 000
AS2	£100 000	£100 000	£300 000
AS3	£140 000	£140 000	£420 000

**Fig. 2**

2. The difference in price of the cars between the UK and other EU countries as compared to China is mainly caused by the tariffs on imports and the taxes on cars by engine size which are imposed by the Chinese government. The UK is a member of the EU and the owners of AS plc believe that this may bring some benefits to the company.

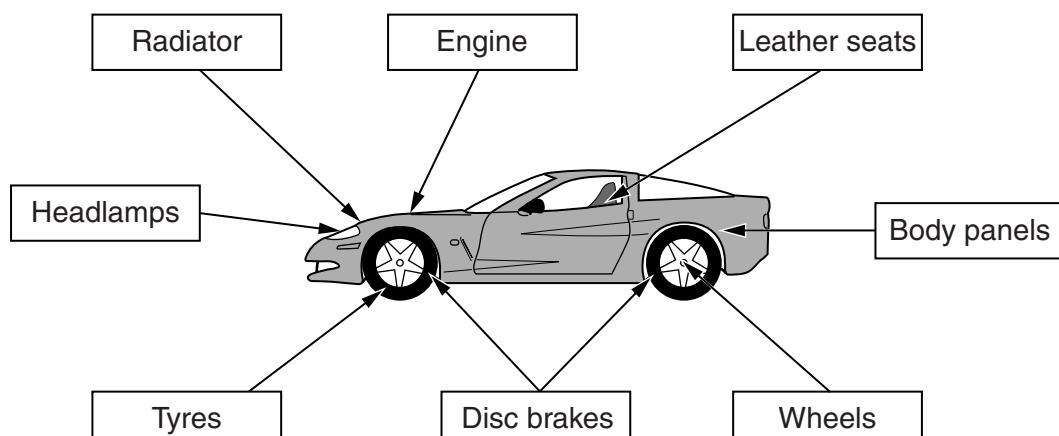
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3. Many UK firms also complain that China has fixed its exchange rate too low. In 2011 some UK business people thought that the exchange rate against the pound should be £1 = 5 Yuan rather than a rate of £1 = 10 Yuan.

### SECTION THREE – SOURCING OF PARTS

Fig. 3 shows the main components in a car.

**The main components in a car**

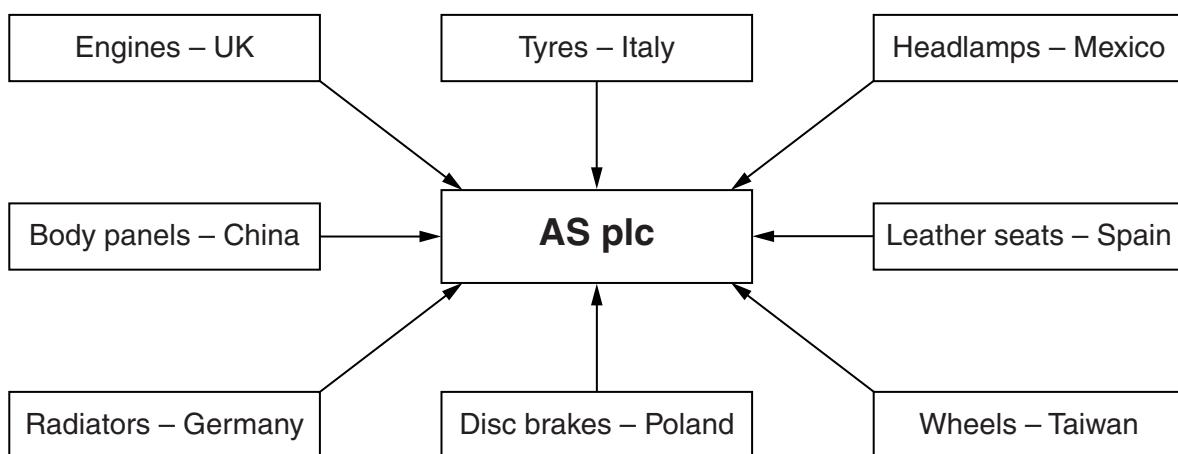


**Fig. 3**

The components which AS plc uses to make the cars come from different countries around the world. Fig. 4 below shows where some of the major components are made.

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**Where major components for AS plc cars are made**



**Fig. 4**

1. AS plc buys tyres from Agnelli Tyres, an Italian company, which makes 30 million tyres each year, including 15 million of its best-selling tyre, the XZ4. There are a number of other major tyre producers in the world from which AS plc could buy tyres. Agnelli Tyres is becoming concerned about increasing competition from the other major tyre producers in the world. Agnelli Tyres is considering what action it should take to change its competitive environment. 30
2. The wheels are bought from Jensing Wheels, a Taiwanese company, which makes a range of different types of wheels. There are a number of other producers in the world from which AS plc could buy wheels. 35
3. The design of the disc brakes used in AS plc cars is unique. At present there is only one producer, the Polish firm Dunajec Engineering, which supplies the type of disc brakes which AS plc uses. Whilst this is not necessarily a problem for AS plc, it has a policy of reviewing its suppliers every two years. It is currently in discussions with a French disc brake producer to see if it could produce the type of disc brakes needed. When reviewing suppliers, AS plc considers factors including price, quality and guarantee of delivery. Guarantee of delivery is important because AS plc uses the 'just-in-time' method of stock control. On the other hand, the directors of AS plc do not believe that it is important to buy components from ethical producers. 40
4. The costs of many of the components which AS plc buys from businesses in other EU countries have been rising because of inflation. AS plc is considering how to deal with this rise in costs. It will, for example, need to consider the inflation rate in other countries around the world. 45
5. AS plc is a multi-national corporation because it owns the business in China which makes the body panels for its cars. It raised the money to buy the Chinese business by selling additional shares on the UK and Chinese stock markets. 50

#### **SECTION FOUR – DEVELOPMENTS AT AS plc**

1. The EU is concerned about the environment and plans to improve the use of sustainable resources such as biofuels. In addition it is particularly concerned about the social costs which result from the use of the motor car. It has set targets for motor manufacturers to reduce the amount of CO<sub>2</sub> emissions produced by the cars which they manufacture. AS plc, in partnership with a local university engineering department, has developed engines which are more fuel-efficient than those of its competitors. It has taken out a patent on these engine designs. 55
2. AS plc plans to build a new factory to produce these more fuel-efficient engines. It wishes to build the factory in Bowton. There have been lots of letters to the Bowton Gazette about the social benefits and costs of the AS plc factory development. AS plc will use 'state-of-the-art' technology in the factory. However, there is a shortage of skilled engineers in the UK who could work with the new technology. AS plc has, therefore, recruited skilled engineers from other EU countries such as Germany and France. It will also look to recruit more engineers from abroad when the new engine plant is built, though this could be expensive. AS plc may also retrain some of the workers it currently employs on its assembly line. In addition to paying for the new factory and the machines, AS plc will need to pay for the materials used to produce the engines, the electricity used to power the machines and the cost of disposing of waste. 60
- 65
- 70

3. To finance the construction of the factory, AS plc is considering the use of its retained profits and, possibly, a loan from a bank, as well as grants from the UK government. AS plc already has a loan from a bank in France. It is hoped that one of the grants would cover part of the cost of building the factory. Once the factory is completed, AS plc recognises that there will be a time before it receives revenue from the sales of its cars with the new engines. This may cause problems for the business.

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