



**GENERAL CERTIFICATE OF SECONDARY EDUCATION
BUSINESS STUDIES**

Production, Finance and the External Business Environment

A293/CS

PRE-RELEASE CASE STUDY

To be opened on 1 January 2010

JUNE 2010



INSTRUCTIONS TO TEACHERS

- The case study may be given to candidates at any time after 1 January 2010.

INSTRUCTIONS TO CANDIDATES

- You **may** make yourself familiar with the case study before you take the question paper.
- You may **not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.

INFORMATION FOR CANDIDATES

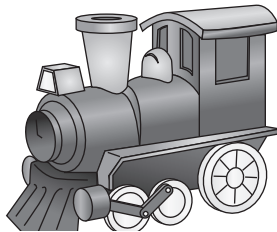
- This document consists of **8** pages. Any blank pages are indicated.

CAS plc

INTRODUCTION

CAS plc makes metal, scale models of steam-driven engines. They are aimed at the older teenage and adult buyer. The models include cars, boats, trains, tractors, and fire engines. CAS plc also sell a range of accessories that go with these models such as railway lines, wagons and railway and farm buildings. Fuel is put into the engine and lit. As it burns, it heats up water that has been poured into the engine creating the steam that makes the engine work.

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scale = 1:72

Scale picture of a model steam train

CAS plc is located in Bowton. In the factory where the models are made 99 people are employed. There are an additional 40 people employed as office workers, though increasingly many of these are completing some of their work at home. These workers carry out a variety of jobs from marketing to the design work involved in developing new models. However, Research and Development manager, Bill Aspull, has said that he would like the product designers to spend more time in the offices. The accounts of CAS plc are outsourced to a business in India.

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SECTION ONE – SALES INFORMATION

Figures 1 and 2 show data about the sales of CAS plc. Fig. 1 shows the percentage of total sales of CAS plc in different parts of the world.

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Sales of CAS plc by region in 2009
Total = £32 million

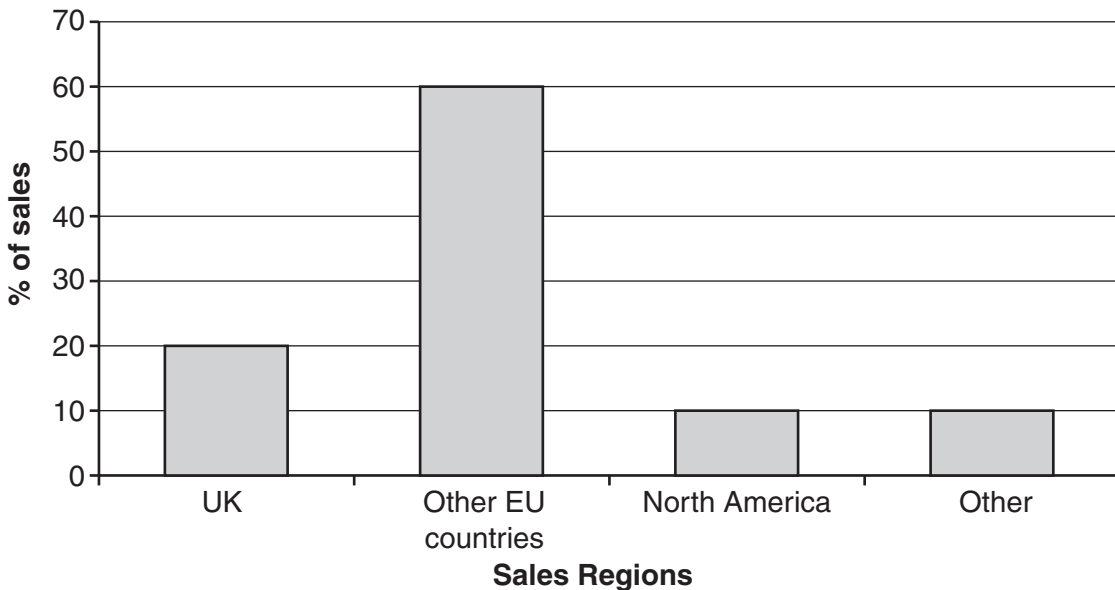


Fig. 1

Market shares in the metal, scale model market

2004 - TOTAL SALES = £500 million

2009 - TOTAL SALES = £400 million

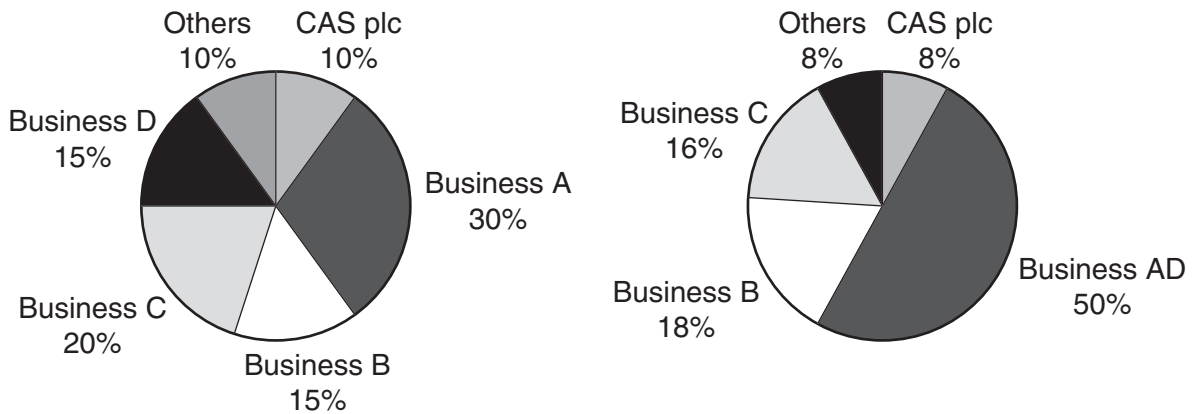


Fig. 2

In her annual report for 2009, Jodie Smith, Sales Director, said that “Increased globalisation has been both an opportunity and a threat to CAS plc. 2009 has been a very difficult year for sales for the following reasons:

- the world economy has been badly affected by a rise in unemployment and a fall in consumer incomes;
- the merger of business A with business D has created a very large competitor, AD plc, although this is not necessarily good for the consumer.”

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Jodie added, “Prospects for 2010 and beyond are better because the world economy is expected to improve. Businesses and consumers should start to benefit from lower interest rates in the UK.”

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SECTION TWO – NEW PRODUCT INFORMATION

CAS plc plans to introduce a new scale model known as the Russell Steam-roller. It is based on programmes about a rock star who is a collector of steam engines. In one series, he restores a working model of the Russell Steam-roller. The programmes are popular in many western countries. The following are reports from managers at CAS plc concerning the plan.

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Report 1: Marketing Information regarding the Russell Steam-roller.

The Marketing Manager, Adam Goldstein, thinks that CAS plc could sell between 4000 and 10000 models. It is expected that the Russell Steam-roller would have a product life cycle of 2-3 years. Adam has provided the following information about the planned price of the model:

Anticipated trade price per model: £200

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Report 2: Production Information regarding the Russell Steam-roller.

The Production Manager, Jenny Ambrose, has written a report about where the Russell Steam-roller might be produced. She has identified two options:

- CAS plc could produce the Russell Steam-roller in Bowton making use of some spare capacity that it has there;
- CAS plc could set up a subsidiary in China which would produce the Russell Steam-rollers.

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Production in the UK could start as soon as September 2010 whilst production in China could not start until January 2011 because of the time needed to set up a subsidiary in China. Jenny has provided data that compares the estimated costs of producing the model in the UK or China. These cost figures are shown in Fig. 3 below.

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Fixed and variable costs of producing the model Russell Steam-roller

Estimated Cost	UK	China
Total Fixed Cost of Russell Steam-roller	£560,000	£500,000
Variable cost per model	£120	£100

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Fig. 3

Report 3: Finance Information regarding the Russell Steam-roller.

The Finance Manager, David Leung, has said that what happens to the exchange rate of the pound (£) against the Chinese Yuan (¥) will be important. The current rate is:

$$£1 = 10¥$$

Some economists are predicting that by spring 2011 the exchange rate will change to: 55

$$£1 = 12¥$$

David has also said that CAS plc will have to consider different ways of financing production of the Russell Steam-roller. The main items of expenditure for the production of the new model steam-roller will be materials, labour, machinery and factory space. If production is to take place in China, David advises that CAS plc should buy a factory. 60

Report 4: Managing Director comments regarding the Russell Steam-roller.

The Managing Director, Martin Morris, has some doubts about manufacturing in China. "I think it is a big risk buying a factory in China. The European Union is becoming more concerned with cheap imports from non-EU countries and the effect that this is having on businesses and employment in EU countries. As you are aware we currently have many workers from Europe and I think it is very important that CAS plc produces in an EU country. I would like to look at introducing new technology at our plant in Bowton. Also before making a final decision we need to consult local schools and businesses which have successfully introduced more sustainable work practices in their offices." 65

Martin Morris is also concerned about an article in the Bowton Chronicle about producing goods in China. 70

Extract from a newspaper article in the Bowton Chronicle

Chinese Economic Miracle – Some Questions

China has grown as an economy for many years now bringing benefits to people in China and in the West. However, some people in the West are questioning just how good the future will be. Some are asking if it is ethical to buy cheap goods from China. Environmentalists have argued that China will soon contribute more to global environmental problems than even the USA. Business leaders in China argue that sales to the West have helped with regard to ethical and environmental issues. Wages paid to Chinese workers are rising, although business leaders in China say that this will not reduce their competitiveness. 75

Fig. 4

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