

**Thursday 24 January 2013 – Morning**

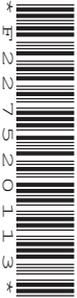
**A2 GCE BUSINESS STUDIES**

**F296/01/RB** Business Production

**RESOURCE BOOKLET**

**To be given to candidates at the start of the examination**

**Duration: 2 hours**



**INSTRUCTIONS TO CANDIDATES**

- The information required to answer questions 1–6 is contained within this Resource Booklet.

**INFORMATION FOR CANDIDATES**

- The information contained within this Resource Booklet is based upon one or more real businesses.
- This document consists of 4 pages. Any blank pages are indicated.

**INSTRUCTION TO EXAMS OFFICER/INVIGILATOR**

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## De Silva's Leather (DSL)

Roberto de Silva is head of De Silva's Leather (DSL), a network of leather businesses. His family has run DSL which is located in a town in southern Spain for over 200 years. DSL is, in essence, 27 separate small businesses all involved, in some way, in the leather trade. All of these businesses are directly managed by Roberto. Some of them are involved in the cow, goat, camel and sheep leather skinning, curing, tanning and dyeing processes. Some simply import 'raw' leather across the Mediterranean from nearby Morocco. On a secondary level there are DSL businesses which use the leather to manufacture a whole range of clothing, footwear, small furniture items, ornaments and so forth. All of these small businesses are located in the 'Leather Quarter' of the town – a very old, hot and, due to the leather works, smelly area. For as long as anyone can remember the town has been reliant on these trades. Tourists who visit the town always end up adding to the congestion in the 'Leather Quarter' as they watch the fascinating processes from skinning to product manufacture. They invariably end up buying something, although tourists only account for about two per cent of DSL's sales. Most manufactured goods are sold in cities such as Barcelona or for export within the European Union. 5 10

One of DSL's key producers is DSL Lamps – the largest producer of lamps and small furniture items in the 'Leather Quarter'. All its lamps are individually made, or made in very small batches, involving a number of skilled tasks such as cutting, stitching, trimming and fitting. Typically the work is low waged and involves long hours with very little utilisation of technology. This enables DSL Lamps to produce a huge variety of individual designs and colours, most of which are then shipped all over Europe. The workers, including many of Roberto's extended family, seem reasonably content with what most outside observers would consider poor working conditions. A typical week's production costs for leather lamps are shown in **Table 1**. 15 20

**Table 1 – Lamp production costs at DSL Lamps**

Fixed costs per week	£350
Wages	£2.50 per lamp
Materials	£0.30 per lamp

\* For convenience all figures have been converted to pounds sterling. 25

On a recent trip to France, Roberto visited a furniture manufacturer which gave him some ideas. With capital investment in machinery he could at last bring DSL Lamps – and then other businesses in the DSL organisation – into the 21<sup>st</sup> century. He guessed that there would be huge production runs, significantly in excess of the current 325 lamps per week, and could not see any obvious downside. Flow production was certainly worth further investigation and Roberto put forward a proposal involving an initial £18 000 purchase of machinery. 30

One of the problems facing Roberto at the moment is DSL's drop in sales of fashion products, such as handbags. DSL Female Fashion (DSLFF), which produces a range of handbags, has failed to keep up to date with fashion and demand trends, whilst its job production methods keep costs, and therefore prices, relatively high. As part of Roberto's plan to modernise as many aspects of DSL as he can, he wants to look into the concept of value analysis. Handbag production in DSLFF seems a perfect place to start. 35

Far bigger than the issue of handbag sales, however, is the colossal waste which all of DSL's businesses generate. This occurs right from the primary stage of leather production all the way up to the manufacture of products. The workforce has a resistance to change and the issue of waste never really concerns them. They are not held accountable in any way and it is common to use twice, sometimes three times, as much leather as necessary for each product. If products 'go wrong' during production – maybe a stitch in the wrong place or the wrong piece sewn on – the 40 45

partly finished product is thrown out. Stock, of all types, regularly goes 'missing' and, in short, stock control is chaotic. Roberto has tried to lecture his supervisors about the need to reduce waste through tighter stock control of raw materials, work in progress and finished goods. However, it has had little effect.

Roberto has much to think about as he is keen to push through his initiatives. However, a potentially lucrative proposal has just landed in his inbox which could complicate matters. A large organisation called Kamils, based in Morocco, which produces furniture, is proposing a joint venture. The nature of the venture is an agreement that DSL would be provided with cloth and timber so that it could extend its variety of products to include non-leather items. DSL, in turn, would provide large quantities of leather at a favourable price to Kamils. Integral to the proposal is that both Roberto and some DSL supervisors would spend six months sharing the essential knowledge and skills with Kamil's staff. The stock control, production, human resource, marketing and financial implications seem overwhelming but Roberto sees this as one way in which to get DSL to be more forward thinking.

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