

**General Certificate of Secondary Education**

**A293CS**

**Business Studies**

Unit A293: Case Study

Production, Finance and the External Business

Environment

**Specimen Case Study**

## INSTRUCTIONS TO TEACHERS

- This case study may be given to candidates at any time after receipt by the centre.

## INFORMATION FOR 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.**

**HOLDEN'S CYCLES LTD – BACKGROUND INFORMATION**

Holden's Cycles Ltd has manufactured bikes in the town of Bowton for 70 years. The bikes have gained a good reputation for quality and sell in the United Kingdom (UK), throughout the European Union (EU) and in the United States of America (USA).

The company produces a range of bikes including racing, mountain and road bikes. Within each range various models, produced to different specifications, are available. Holden's Cycles Ltd also produces a small number of bikes to order.

The company also owns two cycle shops, one in Bowton and one in Mencaster.

The Managing Director of Holden's Cycles Ltd, Sir David Kingston, is concerned about the business and whether it can survive if it continues to produce in Bowton. He has asked the other directors to each present a report, at a special meeting, to discuss the future of the business. Extracts from these reports follow.

SPECIMEN

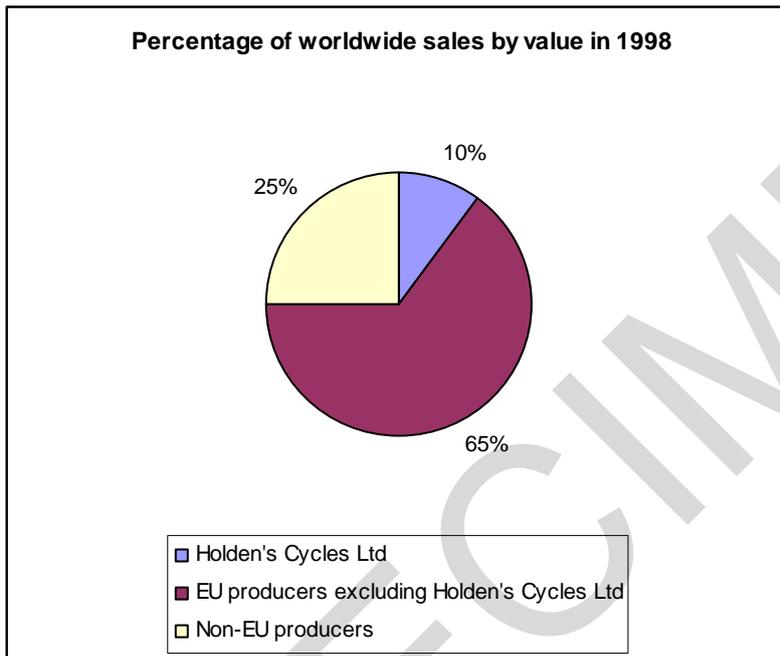
## REPORT 1 - CYNTHIA OLAFSSON - WORLD MARKETING DIRECTOR

### The World Market for Bicycles

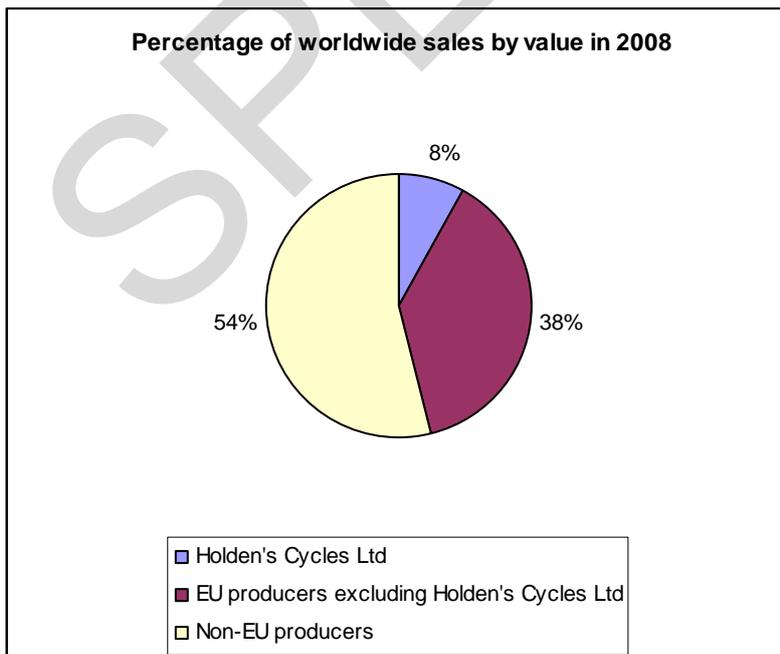
The pie charts below show the percentage of worldwide sales by value in 1998 and 2008 for:

- Holden's Cycles Ltd:
- EU producers excluding Holden's Cycles Ltd;
- Non-EU producers.

**Fig. 1 Percentage of worldwide sales by value in 1998 and 2008**



Total value of worldwide sales in 1998 was £100m.



Total value of worldwide sales in 2008 was £150m.

The fastest growth in the market for bikes has taken place in the USA and in the EU – we need to be able to compete in these markets.

## REPORT 2 – MENDRA DONI - PRODUCTION DIRECTOR

The factory buildings are getting old and energy costs are quite high. I feel that we would benefit from building a new factory and equipping it with new production technology. It would be expensive; I estimate that it would cost £8 million to build and equip a new factory.

A new factory, however, would make it possible to increase total production and give us economies of scale. In addition, we could make other changes to the production method which we currently use. This could improve our productivity.

At present, the bikes are produced by approximately 120 workers; many of whom are skilled trades people. A small number of our bikes are made to order to meet the needs of individual customers. Most, however, are a standard design of road, racing or mountain bike.

Holden's Cycles Ltd make the bike frames, handle bars, seats and mudguards in its factory in Bowton. Other components such as the wheels, tyres and gears are bought from suppliers, many of whom are located in China. The bikes are assembled by hand and packaged ready for delivery using recycled materials. A local transport firm is responsible for delivering the components which Holden's Cycles Ltd buys and for distributing the bikes once they have been assembled.

There are three other main producers of bikes in the UK and like Holden's Cycles Ltd, these companies sell bikes in the UK and abroad. The main sources of imported bikes are the USA, other EU countries, China and Taiwan. China and Taiwan have traditionally produced cheaper road bikes, whilst USA firms produce good quality mountain bikes and the other EU producers sell high quality racing bikes. The number of bikes imported into the UK has increased by 10% in 2008.

Fig. 2 shows what is expected to happen to the production costs of bikes in different parts of the world between 2008 and 2012.

**Fig. 2 Actual and forecast percentage change in production costs**

Location of producer	2008 Actual	2010 Forecast	2012 Forecast
EU (including Holden's Cycles Ltd)	2.5%	3%	3%
USA	3%	3.5%	3%
China	1%	0.5%	0.5%

### REPORT 3 – HELEN CHAN – FINANCE DIRECTOR

The UK economy has grown each year since 1992. Average pay in Bowton in recent years has increased from £22,000 to £25,000 per year. Incomes are expected to continue to grow in Bowton and in the rest of the UK. Employment amongst the people in the town is high and many businesses are reporting labour shortages, particularly in terms of skilled labour. This situation has attracted migrants from Eastern Europe which has contributed to an overall growth of the population.

Inflation may be a problem in the next few years. It is expected that the government will raise interest rates from 5% to 6% next year and that interest rates will stay high for the next 4 or 5 years.

In Fig. 3 below I provide some information about changes that are expected to occur to the exchange rate of the pound sterling against the US Dollar and the Chinese Yuan.

**Fig. 3 Actual and forecast exchange rate changes**

Country	2008 Actual	2010 Forecast
USA	£1 = 2 US Dollars	£1 = 2.5 US Dollars
China	£1 = 20 Yuan	£1 = 10 Yuan

Other UK bike manufacturers have stated that they do not think that the changes in the exchange rate will help them.

Bike sales are booming, but the market is becoming increasingly competitive. Increasing globalisation may be good for consumers but it may not be good for our profits.

Also included in my report is a cash flow forecast for the Bowton cycle shop. Fig. 4 shows a summary of the cash flow forecast for the period November 2008 to April 2009.

**Fig. 4 Summary of the cash flow forecast for the Bowton cycle shop – November 2009 to April 2009.**

	<b>November</b>	<b>December</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>
Balance Brought Forward	40,000	55,000	70,000	20,000	(15,000)	(40,000)
Income						
Sales Revenue	80,000	90,000	10,000	15,000	15,000	45,000
Total Income	120,000	145,000	80,000	35,000	0	5,000
Expenditure						
Wages	10,000	10,000	8,000	8,000	8,000	8,000
Stock	45,000	55,000	40,000	30,000	20,000	16,000
Other Expenses	10,000	10,000	12,000	12,000	12,000	8,000
Total Expenditure	65,000	75,000	60,000	50,000	40,000	32,000
Balance Carried Forward	55,000	70,000	20,000	(15,000)	(40,000)	(27,000)

**REPORT 4 – ROBERT BOSE – COMMUNITY AFFAIRS DIRECTOR****Cycle Path Development**

Bowton Council, like many others nationally, has spent heavily on creating cycle paths around the town and in the town centre. Sustrans, a national organisation, continues to add to the network of long-distance cycle paths across the UK. Cycling is increasingly seen as an environmentally friendly means of transport that will help to save resources.

**Government and Global Warming**

The Prime Minister has said that as a nation, we should try to reduce the amount of greenhouse gases we produce. Firms are also encouraged to adopt measures that improve the sustainable use of resources. The government gives tax concessions to businesses that do this. It suggests that not only should businesses take measures to reduce resource use but that it will be in their own interests to do so.

**Bowton Industrial Estate and Sustainable Production**

The new industrial estate in Bowton has proved to be very successful and only two large units remain unused. The wind farm on the north of the site produces electricity for all the factories on the industrial estate. Some local residents say that the industrial estate is in a good part of town, as it was built on a brownfield site. However, not all the residents are happy with the wind farm which has brought about some social costs to the community.

There have been comments in the local newspaper that the Holden's Cycles Ltd factory, built in the 1950s, is a bit of an eyesore now.

**Ethical Trading**

There is increasing support for ethical business practices. Support for fair trade goods has increased significantly in recent years. People I know in the training shoe industry tell me that many consumers are now saying that they do not want to buy trainers which may have been produced 'unethically' in some parts of the Far East.

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