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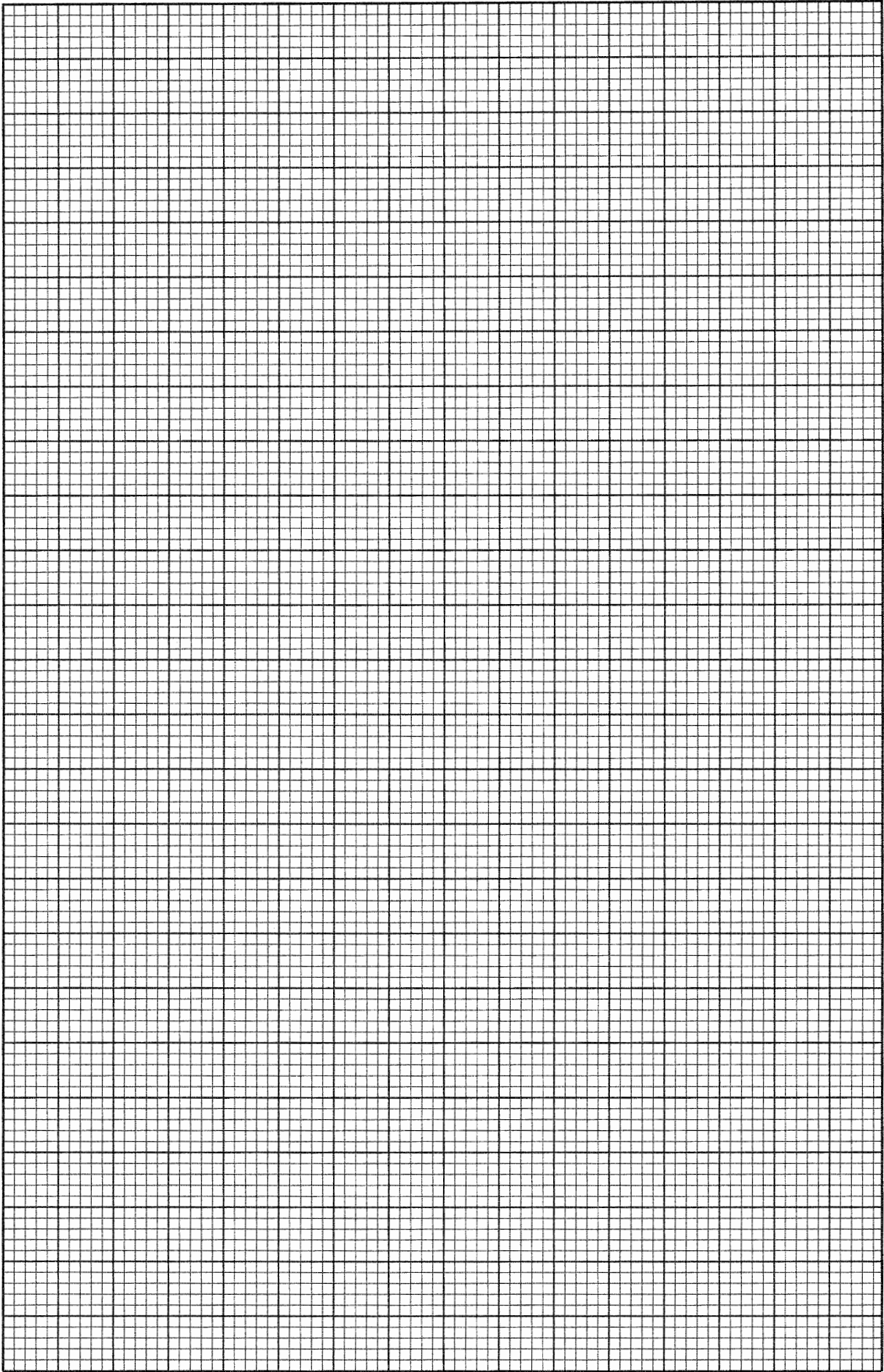


2. (a) On the grid opposite, draw a fully labelled break-even chart to show the position of Barnsley Beds Ltd if

- maximum capacity of beds produced is 400 units per week
- fixed costs are £20 000 per week
- selling price is £400 per bed
- variable costs are £320 per bed.



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Q2

(Total 30 marks)

**Quality of Written Communication: 3 marks**  
**TOTAL FOR PAPER: 63 MARKS**

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Paper Reference(s)

**6123/01**

**Edexcel GCE**

**Business Studies (8076)**

**Advanced Subsidiary**

Unit 3: Financial Management

Thursday 22 May 2008 – Morning

**Context**

**Do not return the context with the  
question paper.**

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*You have already seen the following text which gives details of a case study. It is included in the paper for your reference. Read it again carefully, and then answer ALL the questions*

## **The IKEA Group in 2006**

The IKEA Group (IKEA) offers a wide range of home furnishings at low prices. In July 2005 IKEA operated 226 stores in 33 countries (see **Appendix 1**). Most of these stores are owned by IKEA and the other stores are owned and run by franchisees outside IKEA. During the financial year 2006 IKEA opened 18 new stores across the world.

IKEA was founded by Ingvar Kamprad and in 1958 he opened his first IKEA store in Älmhult, Sweden. Kamprad's innovation was to offer home furnishing products of good function and design at prices much lower than competitors by using simple cost-cutting solutions that did not affect the quality of products. In 1976 he set out this "sacred concept" in a hyperbolic tract entitled 'The Testament of a Furniture Dealer' in which he outlined in evangelical terms "...our duty to expand...those who cannot or will not join us are to be pitied...what we want to do, we can do and will do, together. A glorious future!" 5 10

The IKEA vision, 'to create a better everyday life for the many people', relies on customers choosing, collecting, transporting and assembling products themselves. Consequently most products are designed to be transported in flat packs and assembled at the customer's home. Customer involvement contributes to IKEA low prices because it is the customer who adds value. That is the idea behind "you do your part. We do our part. Together we save money." 15

There is a sense that IKEA is more than an extremely successful enterprise – that to work for it is to work for some kind of cult, albeit a cult that worships untreated pine and Allen keys. Kamprad, now 78, has long since handed over day-to-day control of the firm to others. However, his alleged obsessive personality and zealous frugality have seeped into every corner of IKEA; senior executives travel around Europe on budget airlines and Kamprad himself has been known to replace fizzy drinks from hotel minibars with cheaper supermarket products. 20

### **Product Range**

The IKEA product range includes items for every part of the home. All IKEA products have the label 'Design and Quality, IKEA of Sweden'. The IKEA trademark is described as being the leading home furnishings brand in the world. 25

While most businesses use design to justify a higher price, IKEA designers work in exactly the opposite way. Instead they use design to secure the lowest possible price. IKEA designers design every IKEA product starting with a functional need and a price. Then they work with manufacturers to find smart ways to make furniture using existing production processes. Buyers look all over the world for good suppliers with the most suitable raw materials. These materials are then bought in bulk on a global scale. 30

IKEA does much less market research than many companies because it so often decides what the customer is going to need in advance. However, this strategy has produced some strange results. For example, shortly after the company opened its first Canadian outlet in Vancouver in 1976, employees noticed that an inexplicably large number of vases were being sold – so many that they could barely keep up the supply. Customer research suggested that IKEA's European-style glasses were too small for the Canadians to drink from! 35

## Stores

There are up to 9 500 different product lines offered in each IKEA store and many new products are introduced throughout each year. Products are displayed in realistic room settings and are supported by clearly marked price and product information. Each IKEA store is laid out so customers will not only find what they came for but will also be tempted to 'impulse buy'.

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Most stores include restaurants serving typically Swedish food and beverages. Outside of Scandinavia, these restaurants are sometimes complemented by mini-shops selling Swedish-made, Swedish-style groceries. Customers can buy, for example, IKEA specialities such as the ingredients to make Swedish meatballs.

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## Catalogue

Although the IKEA catalogue range is extensive, it shows just some of the products that the IKEA stores offer. As well as advertising IKEA products, its purpose is to provide a source of product information throughout the year. It also contains details on how to get to the nearest IKEA store and includes the respective opening hours. In 2006 more than 130 million households around the world received the IKEA catalogue free of charge; it was produced in 47 editions, 24 languages and distributed in 32 countries.

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## Distribution

IKEA owns 27 distribution centres across the world. These are very large, highly automated warehouses where flat pack boxes make their only stop between supplier and store. The system is designed to operate with mathematical precision to shave away at costs. When a *Faktum* (product name) wardrobe is bought at Brent Park, London, the cash till registers the purchase. The purchases of these wardrobes are added up until they trigger a warning that stocks are running low. A message is passed electronically up the line to the nearest distribution centre from where more *Faktum* wardrobes will be despatched to the Brent Park store.

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## Customer Service

In the UK, IKEA's customer service has been criticised in the past. Customers have complained that some boxes of flat pack furniture have had bolts and screws missing and that some furniture assembly instructions (which are in picture form only) are indecipherable. There have been complaints that stores are often out of stock on some popular products and that customers do not find this out until they reach the self-service warehouse at the end of the store journey. Another complaint has been about the build up of traffic jams outside IKEA's most popular stores. When a new store was opened in Edmonton, North London in 2005, it attracted over 6 000 visitors in the three hours prior to opening at midnight. There were a number of casualties as people were crushed in the rush to get into the store and consequently it was forced to close its doors after only 30 minutes.

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## Conservation

IKEA wants the products it sells to be free from hazardous substances and does not want the wood in bookcases, tables or other products in its stores to come from areas where forests are being devastated. In its attempt to minimise the possible effects on the environment of its business activities, IKEA has developed three cornerstones for its environmental work: resource efficiency, forestry and the training of co-workers (IKEA employees).

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- Resource efficiency – this has been achieved by working economically with raw materials, energy and other resources, thus leading to reduced waste and discharges as well as reducing costs. For example, whenever possible, leftover material from one product is used in the manufacture of another.
- Forestry – IKEA does not accept timber, veneer, plywood or layer-glued wood from intact natural forests or forests with a clearly defined high conservation value. IKEA's long-term goal is to source all wood from verified, well-managed forests that have been certified according to a forest management standard recognised by IKEA
- Training of co-workers – Environmental Co-ordinators are employed throughout IKEA to increase awareness by training and informing co-workers on environmental issues.

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## The Future?

IKEA, like many other global corporations, will have several challenges to face in the future. Firstly, many western societies have an ageing population with maturing tastes. Secondly, competition is expected to increase from MFI, up-market rivals like the Danish company Ilva, and from other unexpected sources. In September 2006, IKEA announced that it had suffered a sharp fall in profits in its UK business for that year. The decline was blamed on one-off costs driven by numerous extensions and rebuilding of some retail premises. The business also suffered from adverse publicity surrounding the chaotic opening of its Edmonton store as well as a general fall in popularity amongst shoppers. Despite image problems, IKEA announced plans to build a further 10 new stores in the UK over the next five years.

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## Adapted from the following sources:

'The miracle of Älmhult', *The Guardian*, 17 June 2004

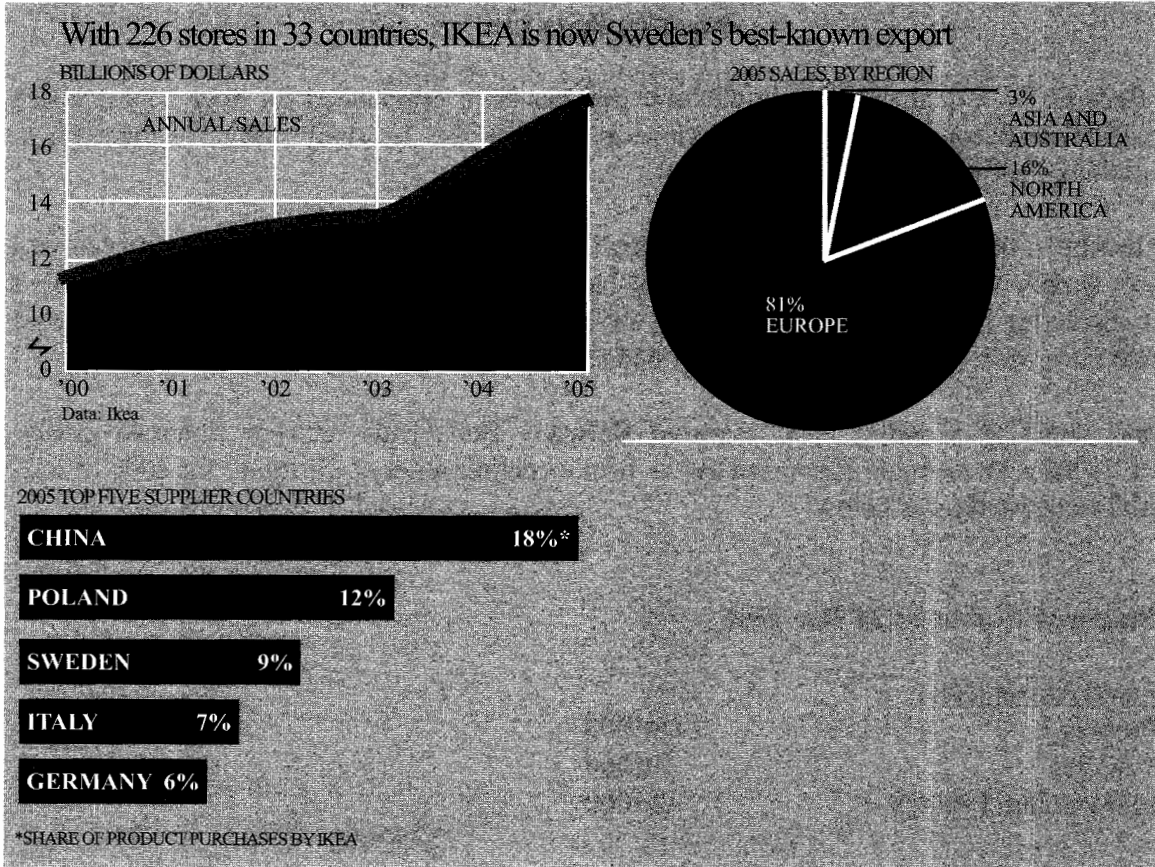
'IKEA hit by store chaos and unhappy customers', *The Daily Telegraph*, 28 September 2006

[www.ikea.com](http://www.ikea.com)

[www.wikipedia.org](http://www.wikipedia.org)



**APPENDIX 1**



Source: Business Week Online 14 November 2005

## APPENDIX 2

### Barnsley Beds Ltd

Barnsley Beds Ltd is a quality bed manufacturer that has been established for over 50 years in South Yorkshire. It has traditionally operated as a niche market supplier to small high street retailers, unlike the bed suppliers to IKEA.

Recently, however, the company has seen a decline in its profitability due to either having to write off bad debts or simply a lack of orders from its UK-based retailers. Chief Executive, Maria Oakwell, is therefore considering making an approach to the UK's largest furniture retailer, MFI. Her proposal is to only manufacture beds for MFI and supply the beds at a discount on current prices.

Its auditors, Stuart & Connor, have assessed Barnsley Beds Ltd's current financial position as 'favourable'. This assessment is supported by the firm's operating/net profit figure for 2006 of £225 000 and the balance sheet figures below:

#### Balance Sheet as at 31 Dec 2006

<u>Fixed Assets (Net)</u>	£	£
Property	1 800 000	
Vehicles	750 000	
Fixtures and Fittings	200 000	
		<u>2 750 000</u>
<u>Current Assets</u>		
Stock	195 000	
Debtors	155 000	
Cash	20 000	
		<u>370 000</u>
<u>Current Liabilities</u>		120 000
<u>Assets Employed</u>		<b><u>3 000 000</u></b>
Bank Loan		960 000
Debentures		240 000
Shareholders Funds		1 800 000
<u>Capital Employed</u>		<b><u>3 000 000</u></b>

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