

**Edexcel GCE**

# **Business Studies**

**Advanced**

**Unit 4A: Making Business Decisions**

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Paper Reference

**6BS04/1**

**Pre-release material**

To be opened on receipt

## **Advice to Centre Staff and Candidates**

- Candidates are expected to be familiar with the evidence provided here for the Unit 4A question paper before entering the examination room.
- A copy of this pre-release material will be included in the question paper, together with some new evidence, which you should study carefully before answering the questions.
- Candidates will not be allowed to take copies of this pre-release material into the examination.

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## Evidence A



### Brompton Bicycle Limited 2005

#### Magnificent obsession

With the price of oil touching \$100 a barrel and petrol prices going through the roof, you could say that a convenient, folding bicycle is an idea whose time has well and truly come. But the idea is nothing new for Andrew Ritchie, the founder and managing director of Brompton Bicycle Limited.

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“Other folding bikes, like the Moulton and the Bickerton, don’t attempt to be portable in the way ours are,” he explained. The quest to design and realise his idea was to become the centre of Ritchie’s life for the next 30 years. He began by getting some friends to commit £100 each to his venture, to enable him to

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design and build prototypes.

Brompton is now (2005) producing in the region of 14,000 bikes a year. “We’re contracting out more work now, than ever. As we get better known, demand is rising all the time,” Ritchie said. Brompton sells to bicycle dealers through its own distribution network. The company invites the dealers down to the factory, shows them around and gives them the opportunity to try out the equipment themselves. As word spreads, sales follow.

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The Government’s Green Transport scheme allows employers and employees to save 50 per cent on the retail cost of new bikes. Organisations like Boost ([www.boost.uk.com](http://www.boost.uk.com)) and CycleScheme ([www.cyclescheme.co.uk](http://www.cyclescheme.co.uk)) provide administration services to companies interested in the scheme. Companies also stand to gain by having to provide less parking, lessening the impact of congestion charging (where appropriate) and having a healthier workforce. “Bromptons take up so little space that they can even be kept under the employee’s desk.” Brompton has seen a surge in demand as a result of the terrorist attacks on the Tube. One dealer sold 35 bikes in a day, during a normally quiet period.

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“Smaller wheels give better manoeuvrability, which is great in traffic,” Ritchie said. “The owners don’t have to go without gears: the top Brompton models have six. It’s amazing the fan mail we get.”

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(Source: adapted from *The Boardroom Magazine*, September 2005)

NB: Andrew Ritchie has since recently retired from the MD role.

## Evidence B

### Bike maker prepares to step up a gear in 2008

***Brompton wants to keep up with the competition without its folding bicycles losing their uniqueness.***

This year (2008), Brompton Bicycle expects to sell 19,000 of its folding machines, generating revenue of £7m and a pre-tax profit of £925,000. New managing director Will Butler-Adams is aware that to remain a player in a rapidly expanding global market it has to see significant sales growth. "Last year one of our competitors made 350,000 bikes," said Butler-Adams. "Selling 19,000 is nothing". The Brompton factory has limited capacity and uses sluggish production methods, as emphasised by a six month lead time. "In the past we have not been able to make enough bikes to meet demand," Butler-Adams said. "The market has grown 20 per cent to 25 per cent a year and we haven't been growing at the same rate."

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Using double shifts backed by slicker systems, he wants to boost production to 50,000 bikes a year. To reach that, Brompton is half way through a £1m production revamp. Butler-Adams is well aware that the debt-free firm's investment could be undermined by a competitor that not only competes on quality but undercuts on price. "There is always the risk that someone could turn up with a bike just as good and compact as ours but for two thirds of the price." Brompton bikes sell in the UK for between £550 and £1 200. Sales to Europe, the US and Far East account for 70% of income.

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"I think we have the best folding bike but the competition is getting better all the time. Someone could come along and do a better job. They will invest in research and development and come up with something better. The Brompton is unique, but not that unique."

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There are other problems. Any patents Brompton had expired eight years ago. Also, being based in West London, it does not benefit from the low wage structure of Taiwan, where 80 per cent of bikes are made. In a country where traditional manufacturing skills are in short supply, Brompton has had to train many of its 85 staff in skills such as welding and brazing. This means that Brompton Bicycle Limited, named after the area of London where the prototype was first developed, is unwilling to relocate.

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"In other cost areas", said Butler-Adams, "we are more competitive. Most bike manufacturers are perpetually changing their models and so never refine their manufacturing process. Our bikes have hardly changed in 20 years and we have been able to invest over time in the tooling. It's a big up-front cost but it's an investment we have already made."

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Butler-Adams has further reduced costs by outsourcing non-core elements of the manufacture, retaining only the skilled machining and complex engineering at its Brentford base. It is this engineering ethos that underpins the business. Butler-Adams said attention to detail is Brompton's main differentiator. "They are built to last," he said. "We have to make sure that we don't become so obsessed by growing that we lose sight of quality".

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"The Brompton is not a commodity product. We don't want to sell 250,000 a year as that would undermine the brand, making it so mainstream that it would lose its appeal. We are not interested in sales for sales sake."

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Despite having 10 outlets in the US – compared to 100 in the UK – America accounted for just 5 per cent of sales last year. "We need to grow our overseas sales... We had the chance to go into 15 new shops in the US but didn't because we couldn't supply them," said Butler-Adams.

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The company sells direct to bike shops in the UK and US, who become stakeholders, and uses distributors in other parts of the world. As only Brompton makes the spares, the firm benefits from an extra revenue stream when shops service and repair bikes. The importance of after sales service means that the company does not sell directly via the internet.

“The basis of a brand is what people say to each other about it,” said Butler-Adams. “We are going to have to start from scratch with marketing. We need to decide what we are about and what we want to communicate. We have to get our distribution, routes to market and brand awareness right.” 45

The target market are city dwellers, commuters and those with boats and caravans – anyone, in fact, who wants a bike that folds to the size of a suitcase. The good news for would-be customers is that the six-month waiting time is now down to three weeks. “I guess that’ll give us another challenge,” said Butler-Adams. “Now we are fulfilling orders more quickly, how will we fill the lull in the winter months?” 50

(Source: adapted from *The Daily Telegraph*, Tuesday 1 April 2008)

## Evidence C

### A rival's advertisement



Daubikes' folding bike is a must if you travel/commute by train, it's light-weight and folds easily so that it can be put to one side without taking up too much space. The folding bicycle has been designed with reliability as the number one priority, after all you don't want to unfold the bike and find that an oily chain has come off, or the gears don't work, or the brakes are binding. The adjustable height means that the folding bike can be used by juniors through to adults – a portable, safe and reliable bicycle that can be used by all.

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(Source: adapted from [www.daubikes.com](http://www.daubikes.com))

NB: Daubikes outsource all production and also act as a wholesaler for other brands.

## Evidence D

### Selected UK Folding Bike Retail Prices

Manufacturer and Model	Price	Speeds	Gear Maker/Model	Comment
<b>Daubikes 16"</b>	£69	1	–	sale price
<b>Argos Challenge City</b>	£100	6	Shimano	
<b>Tesco Direct Exodus Compact</b>	£200	6	Shimano	rear suspension
<b>Dahon Curve SL [2007]</b>	£440	5	Sturmey-Archer	
<b>Brompton M3L</b>	£565	3	Sturmey-Archer	includes battery lights
<b>Dahon Speed TR</b>	£650	24	SRAM DualDrive	2008
<b>Brompton P6R</b>	£685	6	SRAM/Brompton	includes dynamo lights
<b>Brompton S2L-X</b>	£1 025	2	Brompton	incl. battery lighting and Vitesse saddle
<b>Airnimal Black Rhino</b>	£2 299	14	Rohloff	

Note that the same bike may occasionally appear under the name of more than one manufacturer, and that some manufacturers (notably Dahon) make bikes for others to sell under their own name, usually in slightly modified form.

(Source: adapted from [http://www.atob.org.uk/price\\_tag.html](http://www.atob.org.uk/price_tag.html))

## Evidence E

<b>Selected EU Minimum Wage Rates (Monthly) expressed in local currency and in Euros</b>			
	<b>Local currency</b>	<b>Euros</b>	<b>Date effective</b>
<b>Bulgaria</b>	220 Leva	112.49	1st January 2008
<b>France</b>	Euro	1 280.07	1st July 2007
<b>Poland</b>	1 126 Zlotys	311.44	1st January 2008
<b>Romania</b>	500.00 New Lei	140.64	1st January 2008
<b>Slovakia</b>	8 100 Koruny	241.20	1st October 2007
<b>Spain</b>	Euro	600.00	1st January 2008
<b>United Kingdom</b>	956.80 Pounds Sterling	1 381.52	1st October 2007

Full-time adult employees, aged 23+. Where official rates are expressed by the hour or week, they have been converted to monthly rates on the basis of a 40-hour week and 52-week year.

(Source: adapted from <http://www.fedee.com/minwage.html>)

## Evidence F

### Extract from the Brompton Bicycle Limited accounts

<b>Profit &amp; Loss Account</b>	<b>£000s</b>	<b>£000s</b>
	<b>31/03/2007</b>	<b>31/03/2006</b>
Sales	5 278	4 894
Cost of Sales	3 251	3 108
Gross Profit	2 027	1 786
Administrative expenses	1 279	1 247
Operating Profit	748	539
Add Interest Received	47	28
Profit before Tax	795	567
Taxation	243	148
Profit After Tax	552	419
<b>Balance Sheet</b>	<b>£000s</b>	<b>£000s</b>
	<b>31/03/2007</b>	<b>31/03/2006</b>
Fixed Assets	129	160
Current Assets		
Stock	1 228	1 095
Debtors & Prepayments	489	429
Cash on deposit and at Bank	1 537	1 182
Total	3 254	2 706
Creditors	661	585
Net Current Assets	<u>2 593</u>	<u>2 121</u>
Net Assets	<u>2 722</u>	<u>2 281</u>
Capital & Reserves		
Share Capital	49	49
Share Premium Account	104	104
Capital Reserve	14	14
Profit & Loss Account	<u>2 555</u>	<u>2 114</u>
	<u>2 722</u>	<u>2 281</u>

(Source: adapted from Brompton Bicycle Ltd Report & Financial Statements – Companies House)

## Evidence G

### Net cash flows for a Computer Aided Machine (CAM) investment at Brompton

<b>YEAR</b>	<b>Net Cash Flow</b>	<b>7% Discount Factor</b>
<b>0</b>	(£120 000)	–
<b>1</b>	£50 000	0.935
<b>2</b>	£50 000	0.873
<b>3</b>	£40 000	0.816
<b>4</b>	£40 000	0.763

**Evidence H**

