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Other names

Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Business Studies

International Advanced Level
Unit 3: Strategic Business Decisions

Wednesday 22 June 2016 – Afternoon

Time: 2 hours

Paper Reference

WBS03/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Answer ALL the questions in this section.

You should spend 60 minutes on this section.

Evidence A

Company Profile

LEGO® products are sold all over the globe.

We are one of the world's largest toy manufacturers and the largest in construction toys.

The world's children spend 5 billion hours a year playing with LEGO bricks.

Key figures 2013

- Sold in more than 130 countries
- Revenue: DKK* 25 382 million
- Profit for the year: DKK* 6 119 million
- Profit for the year margin: 24.1%
- Capacity investment: DKK* 2 644 million
- 13,869 employees at year end
- Highest product safety: 0 product recalls for 4th year running



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* DKK = Danish Krone, the Danish unit of currency.

(Source: adapted from The *LEGO Group* – a short presentation 2014
<http://aboutus.lego.com/en-gb/news-room/media-assets-library/documents>)

Evidence B

2012 Progress Highlights

- Meets EU Toy Safety Directive
- Ensuring children's safety online
- Increased use of sustainable materials
- Use of product life cycle analysis
- Optimising packaging solutions
- Reaching energy efficiency and recycling of waste targets
- Full-scale commitment to renewable energy
- Improving safety culture
- Increasing consumer engagement and feedback
- Continuous dialogue with suppliers

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(Source: The *LEGO Group* Progress Report 2012
<http://aboutus.lego.com/en-gb/news-room/media-assets-library/documents>)

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Evidence C

Governance

75% of The *LEGO Group* is owned by *KIRKBI A/S* and the remaining 25% is owned by the *LEGO Foundation*. *KIRKBI A/S* is the holding and investment company of the Kirk Kristiansen Family. The *LEGO Foundation* is a charity which seeks to improve the lives of children through play.

Since the establishment of the *LEGO Group* in 1932, the company has been privately owned by the Kirk Kristiansen family. It combines the strengths and benefits of being privately owned, with the good corporate governance normally found in a plc. Corporate governance exists to ensure that directors act in the owners' interest. The owners of *LEGO Group* are on the Board of Directors and are close to the day-to-day running of the business. The *LEGO Group* also employs a professional management team from outside the family, some of whom sit on the board as independent directors. 5 10

As a family-owned business, it is important to maintain the professional management of the company, including a strong and competent board of directors. For the last 10 years the *LEGO Group*, has elected its Chairman from among the independent directors.

As a family-owned company, the *LEGO Group* is more exposed to the risks involved in the handover from one generation to the next. To lessen these risks, the next generation of the family is always involved in the running of the business. 15

(Source: adapted from the *LEGO Group* Progress Report 2012
<http://aboutus.lego.com/en-gb/news-room/media-assets-library/documents>)

Evidence D

Increased Global Investments

The *LEGO Group* increased its consumer sales by 11% in 2013, and its revenue has increased by 400% in less than 10 years. In order to meet a huge global demand for its toys, the *LEGO Group* has increased its investments in developing its production capacity to over DKK 2.6bn (EUR 354m) in 2013. It has expanded its factories in Mexico and the Czech Republic and the construction of the first Asian *LEGO* factory is also underway in China. A major investment in Hungary is part of this overall strategy. This multi-million euro investment, is financed from the *LEGO Group's* own sources. 5

(Source: adapted from <http://aboutus.lego.com/en-gb/news-room/2014/march/nyiregyhaza-lego-factory-opening>)



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1 (a) What is meant by the term profit for the year margin? (Evidence A, line 7)

(2)

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(b) What is meant by the term product life cycle? (Evidence B, line 4)

(2)

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(Total for Question 1 = 4 marks)



2 Explain **two** ways by which the *LEGO Group* promotes corporate social responsibility.

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(Total for Question 2 = 6 marks)



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4 Assess the usefulness of investment appraisal techniques when the *LEGO Group* is making its major investment decisions.

(10)

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(Total for Question 4 = 10 marks)



5 Assess the extent to which the *LEGO Group* could be classified as having a 'power culture' as defined by Charles Handy.

(12)

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(Total for Question 5 = 12 marks)

TOTAL FOR SECTION A = 40 MARKS



SECTION B

Answer ALL questions in this section.

You should spend 60 minutes on this section.

Evidence E

Lego to outsource and cut 1,200 jobs

Lego, the Danish toy maker famous for its multi-coloured bricks, is to cut 1,200 jobs by transferring most of its remaining production to *Flextronics*, a Singapore-based company.

The move forms the latest part of a three-year cost reduction campaign under which the *Lego* workforce will have been reduced from 8,300 in 2003 to 3,000.

Lego employees in the US and Denmark will be replaced by *Flextronics* employees in Mexico and Eastern Europe, where labour costs are much cheaper. 5

The toy maker implemented the cost reduction plan after reporting a loss of DKK1.7bn in 2004. It has since returned to profitability in 2005 with a profit of DKK702m before tax.

Lego's problems highlight the challenges being faced by many European manufacturers, who are under pressure to move manufacturing bases to nearby low-cost countries. 10

Jørgen Vig Knudstorp, president and chief executive, said: "This is the last major step in our process of restructuring of the group's supply chain, which has been implemented since 2004 with the purpose of cutting total production costs by DKK1bn."

The move means production at the *LEGO* subsidiary in Connecticut in the US will be halted during the first quarter of 2007 while production of *Lego System* products will relocate to *Flextronics'* facilities in Eastern Europe between 2007 and 2010. 15

(Source: adapted from the *Financial Times*, June 21, 2006
'Lego to outsource and cut 1,200 jobs'
By David Ibison)

Evidence F

LEGO Group: An Outsourcing Journey

After the losses of 2004, the *LEGO Group* decided to contract out 80% of its production to *Flextronics*. At the same time the *LEGO Group* planned to close down major parts of its existing production capacity in Europe. Confident about the new venture with *Flextronics* a long-term contract was signed by the *LEGO Group*.

This decision did not work and three years after the contract was signed the *LEGO Group* announced the end of its venture with *Flextronics* because the collaboration had not worked. The *LEGO Group* now had to understand why this had happened and what they could have done differently. 5

(Source: adapted from Ivey Publishing. Publication Date: Nov 12, 2010. Prod. #: 910M94-PDF-ENG)

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Evidence G

Management's Review

Return to own production

During 2008 the *LEGO Group* decided to focus on returning to owning its own production to obtain higher flexibility and efficiency. As a result, it began phasing out the existing production agreement with *Flextronics*. This will be completed during 2009.

Investments in increased production capacity

In 2009, the *LEGO Group* finalised the return to its own production. This means that all production facilities are now fully operational and that this lengthy change has been completed. Following this exercise, the *LEGO Group* once again produces the majority of its products itself. Its own production takes place in Denmark, the Czech Republic, Hungary and Mexico.

5

(Source: adapted from The *LEGO Group* Annual Reports 2008 and 2009)

Evidence H

LEGO Group Financial Data

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenue (DKKm)	25 382	23 095	18 731	16 014	11 661	9 526	8 027	7 798	6 295	6 704	7 196	10 116
Profit (loss) for the year (DKKm)	6 119	5 613	4 160	3 718	2 204	1 352	1 028	1 290	214	(1 931)	(935)	326
Profit (loss) for the year margin (%)	24.1	24.3	22.2	23.2	18.9	14.2	12.8	16.5	3.4	(28.8)	(13.0)	3.2
Employees Average number (full-time)	11,755	10,400	9,374	8,365	7,286	5,388	4,399	4,908	6,624	7,295	8,298	8,316

(Source: adapted from The *LEGO Group* Annual Reports 2013, 2008, 2004)



6 Assess the corporate strategy for company growth used by the *LEGO Group*.

(20)

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(Total for Question 6 = 20 marks)



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QUESTION 7 BEGINS ON THE NEXT PAGE.



While planning changes to production, the *Lego Group* will have made contingency plans.

7 Evaluate the usefulness of contingency planning to the *LEGO Group* when making these changes.

(20)

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(Total for Question 7 = 20 marks)

**TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS**

