



GCE A level

326/01

BUSINESS STUDIES

BS6

P.M. TUESDAY, 17 June 2008

1³/₄ hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **all** the questions.

INFORMATION FOR CANDIDATES

This paper is a synoptic paper. It is designed to test candidates on the connections between different aspects of the subject and requires the integration of knowledge, understanding and skills acquired from different parts of the subject content.

Mark allocations are shown in brackets.

Candidates will be assessed on their quality of written communication i.e. the structure and presentation of ideas; the clarity of expression; grammar, punctuation and spelling. Up to three marks will be awarded for written communication.

Study the information provided about the *LEGO Group* and answer the questions that follow.

Background Information

The LEGO Group is the fifth largest toy manufacturer in the world.

In addition to making toys, the LEGO Group operates four LEGOLAND Parks and develops educational materials. The LEGO Group's mission statement is "to stimulate the child in each of us".

- 5 The company has its headquarters in Billund, Denmark, and has manufacturing plants in the United States, Switzerland, The Czech Republic, Korea and Denmark. LEGO products are sold and marketed in 125 countries.

10 The LEGO Group was founded by a Danish carpenter, Ole Kirk Christiansen, who began making wooden toys in 1932. The LEGO brick, as we know it today, was developed in 1958. The company has been owned by the same family ever since.



The LEGO Product Range

15 It is LEGO philosophy that "good play" enriches a child's life and its subsequent adulthood. With this in mind, the LEGO Group has developed a wide range of products, all founded on the same basic philosophy of learning and developing through play.

20 There are currently over 6000 different types of LEGO sets on sale, played with by more than 400 million children every year. Approximately 18 billion LEGO bricks and other components are made every year. If all the LEGO sets sold in a year were laid end to end, they would reach more than five times around the world!



The first LEGO mini-figure appeared on the market nearly 30 years ago. Since then, the little yellow figure has gone from strength to strength. The mini-figure has appeared in many guises, including knight, astronaut, policeman, racing driver, Star Wars warrior, Harry Potter and Spider Man.

25 When the mini-figure first appeared, it was decided that its face should have only one colour: yellow and that its facial features should be happy and neutral. The figure would have no gender, race or role – these would be determined by the child’s imagination. It was not until the launch of LEGO pirates in the 1980s that the need seemed to arise for having a figure which could be evil or good, happy or grumpy. Since 2003, the LEGO mini-figure has been produced in a range of skin colours.

30 In the 1990s, the LEGO Group launched a steady flow of new products. In 1994 the LEGO TECHNIC Supercar sparked the enthusiasm of young motoring fans all over the world. That was also the year LEGO BELVILLE, a product for young girls was launched, which later moved into the classic world of fairy tale with princesses, fairies and butterflies. In 1995 the LEGO Group launched products for the very youngest, including LEGO PRIMO, designed for children in the 0-2 age group.

35 In the 1990s, the LEGO Group also stepped firmly into a new era. Intelligence and behaviour became integral features of the LEGO product range. In 1998 the partnership with Massachusetts Institute of Technology produced amazing results. By integrating robot technology with the LEGO construction system, LEGO MINDSTORMS enabled children to create and programme intelligent LEGO models.

Quality

40 The LEGO Group has emphasised the importance of quality throughout its 75-year history, ensuring that consumers return to LEGO products again and again. LEGO bricks are made using a moulding process. The moulds used in production are accurate to within two-thousandths of a millimetre and the accuracy of the moulding process means that only 18 products in every million produced fail to meet the company’s high quality standards.

The LEGO Group and its Stakeholders

- 45 The LEGO Group has drawn up a number of objectives for its partnership with its most important stakeholder groups. They include the following:
- To convey to consumers a sense of joy from a creative and systematic building experience.
 - To be an exciting, challenging and rewarding workplace for the employees. Overseas suppliers must conform to certain minimum standards regarding the working conditions of their employees.
- 50 It has also made efforts through training and procedures to improve health and safety and reduce the number of working accidents.
- To deliver differentiated products and good profit margins to its retailers.
 - To develop a partnership with its suppliers, paying them a fair price for the products that they manufacture for the LEGO Group.
- 55 • To act responsibly and reliably towards society, including trying to create new employment possibilities in the communities where LEGO production is moving away.
- To act responsibly towards the environment by such things as efficient waste separation, recycling of plastics and the full assessment of new raw materials and chemicals before they are put into use.
 - To guarantee profits in the short and long term for the owners of the business.
- 60 In addition, the LEGO Group wishes to be socially committed and grant humanitarian support. The main objectives of the Group's charity policy is to improve children's rights, living conditions and possibilities of creative play and learning. In 2006 the LEGO Group supported a large number of charity programmes and donated more than 45 000 product sets to poor children all over the world. They also donated more than 16 million LEGO bricks to schools and pupils in New Orleans following
- 65 the devastation caused by Hurricane Katrina.

The Future

The LEGO Group is currently implementing a seven-year strategy, which began in 2004. The strategy aims to rebuild the company and revitalise the LEGO brand, so that it is identified with creative building fun and role-play. Between 2006 and 2008 it aims to restructure the business in order to

70 provide a basis for growth to start in 2009. The immediate priorities were (i) reorganising production and (ii) improving the profitability of the product portfolio.

(i) Reorganising Production

In 2006 the LEGO Group announced that over the next three years the bulk of its production would relocate from its existing production sites. This will be done by shutting down some of its production

75 facilities and outsourcing to several suppliers, including the electronics manufacturing services company, Flextronics. Outsourcing means that, rather than making the products in its own factories, it will buy the products from other companies who will make them to the LEGO Group's specification. The new production facilities in Eastern Europe and Mexico were chosen for their proximity to the Group's main markets in Europe and the United States. The most specialised and skills-related LEGO

80 products will still be manufactured at the Group's Danish plant. These facilities will also be supported by an R & D unit – a so-called concept centre, established in conjunction with the remaining production facility in Denmark.

(ii) Improving the Profitability of the Product Portfolio

The LEGO Group aims to continue to improve its product range so that its latest products will be ready to face the competition, which includes a vast array of new electronic products. New products have been centred on the classic product idea, the LEGO brick – and perpetual themes such as City, Castle, Pirates and Vikings have received a new lease of life. In the process, the development and production time from concept to final product on the retailer's shelf has been dramatically reduced. The average period of development for a new product is now about twelve months.

The company recognises that child's play is an ever-changing world, and the company's product development departments therefore work systematically, with the evolution of familiar play themes and product lines based on research among children and parents into things like play habits, family patterns and housing conditions. The child of the future will have plenty of things to play with. Consumer electronics is a tough competitor to traditional toys, but the LEGO Group is confident that the LEGO brick will continue to be relevant to children and will be supplemented, but never replaced, by electronic experiences.

Company Performance

The LEGO Group has experienced some mixed fortunes over the last few years, as is shown in Table 1 below:

Table 1.

	2006 (£m)	2005 (£m)	2004 (£m)	2003 (£m)	2002 (£m)
Sales Revenue	712	642	575	618	874
Net Profit	123	43	(176)	(85)	30
Full-time employees	4920	5320	5620	6540	6660

The LEGO Group's financial results for 2005 and 2006 are given below.

Table 2 - The LEGO Group's Trading and Profit and Loss Account for the year ending 31 December

	2006 (£m)	2005 (£m)
Sales	712	642
Cost of Sales	252	269
Gross Profit	460	373
Less Expenses	337	330
Net Profit	123	43

Table 3 - The LEGO Group's Balance Sheet at 31 December

	2006 (£m)	2005 (£m)
Fixed Assets	195	173
Current Assets		
Stocks	80	65
Debtors	166	169
Bank	183	179
Other	198	114
Total Current Assets	627	527
Current Liabilities		
Creditors	68	57
Other Short Term Debt	214	109
Total Current Liabilities	282	166
Net Current Assets	345	361
Total Assets less current liabilities	540	534
Long Term Liabilities	53	119
Net Assets	487	415
Shareholders' Capital		
Ordinary Shares	11	11
Retained Profit	398	288
Reserves	78	116
Total Shareholders' Capital	487	415

Adapted from: www.lego.com

1. What evidence is there to suggest that the LEGO Group is ethical in the conduct of its business? [8]
2. Explain the role that product development has played in the LEGO Group's success. [10]
3. Evaluate the LEGO Group's decision to outsource the bulk of its production. [10]
4. Analyse and evaluate the LEGO Group's financial performance. [12]
5. Assess the opportunities and threats faced by the LEGO Group from operating in an increasingly global market place. [10]