



Rewarding Learning

ADVANCED
General Certificate of Education
January 2012

Business Studies

Assessment Unit A2 2

assessing

The Changing Business Environment

[AT221]

WEDNESDAY 1 FEBRUARY, MORNING



TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer the **one** question.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed throughout the paper.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question in allocating the available examination time.

Study the information below and answer the question that follows.

Finn Limited

Source 1: Background information

Finn Limited manufactures a range of furniture aimed at the luxury end of the market. Mikko Bjorn, the managing director, came to Northern Ireland from his home country Finland in 1990. He set up a furniture design and manufacturing business in 1993 to cater for the expanding housing market. Products are of classical design and include wardrobes, desks, dining tables, chairs, dressing tables and display cabinets. Selling prices vary from £450 to £5 800 across the product range.

Despite the dramatic downturn in the economy Finn Ltd has performed quite well in recent years, as shown in **Source 2** below. One of Finn Ltd's competitors has gone into liquidation and Mikko believes that the success of his company is partly influenced by the closure of this rival firm.

Source 2: Financial Information on Finn Ltd

	2010	2011
	£	£
Domestic Sales Revenue	200 000	230 000
International Sales Revenue	800 000	1 270 000
Total Sales Revenue	1 000 000	1 500 000
Net Profit	300 000	360 000

Source 3: Economy in Recession

Recent economic data revealed that there were a number of factors responsible for the sharp downturn in the furniture market:

- A deep recession in the housing market with very low numbers of houses being bought and sold
- Over 2.5 million people unemployed in the UK, including 70 000 in Northern Ireland
- In the Republic of Ireland 350 000 people were unemployed
- An increase in VAT to 20%, and cuts in public sector expenditure.

Source: adapted from Business Month, Volume 4, January 2011, Belfast Telegraph

Source 4: International Trading Conditions

Finn Ltd has established trading links in the Republic of Ireland, Spain and France. It imports all of its high quality, ethically sourced timber from Finland.

Mikko noticed an improvement in international trading conditions especially in the second half of 2010. As Sterling (£) had weakened against the Euro (€) and other currencies, overseas demand for Finn Ltd's furniture had increased. On the other hand, the cost of timber imported from Finland had risen because of the relative strength of the Euro (€).

Mikko believes that his business is increasingly being affected by globalisation and that both demand and supply issues need to be addressed. Finn Ltd has carried out some research into the Chinese market and the company has identified two possible opportunities:

- Sourcing timber from China
- Exporting Finn Ltd furniture from Northern Ireland to China.

Source 5: China Plants Trees and Brazil Preserves

The world's rate of forest loss has slowed significantly in the last decade.

"Both Brazil and Indonesia are reporting a significant drop in the loss of forests," said Dr Mette Loyche Wilkie, a senior forestry officer with the UN Food and Agriculture Organisation. She suggests that, in Brazil, this is because there is a political goal to achieve an 80% reduction in deforestation by 2020.

As deforestation has fallen, there has also been an increase in the planting of new forests, particularly in China, leading to an overall increase in national forest cover of three million hectares per year.

Adapted from: © 'Forest loss slows as China plants' by Richard Black, Environment correspondent BBC News / bbc.co.uk – 2012 BBC

Source 6: Investment in China

Foreign investment in China, the world's fastest-growing major economy, continued to increase for a ninth month in April 2010 as its government relaxed rules to attract investors amid a sustained economic expansion.

China's economic growth quickened to 11.9% in the first quarter of 2010, the fastest pace in almost three years, driven by increased spending and a credit boom. Land price discounts and investor expectations that the Chinese currency will strengthen may encourage more companies to set up in China. Many believe that this, combined with recently announced measures including tax incentives, make the country an attractive investment destination.

Adapted from © <http://www.bloomberg.com/news/2010-05-13/china-s-april-foreign-investment-rises-almost-25-gaining-for-ninth-month.html>

Source 7: Chinese Trade Barriers

Access to Chinese markets has become a source of grievance for some firms from outside China who claim that regulations are being applied to benefit China's businesses over international competitors.

Mobile phones that had already passed EU and other international testing had to undergo lengthy and expensive testing to meet new emission "standards" in China. Financial services such as accounting are similarly hit with regulations that are only enforced against foreign companies, and often at short notice.

"It's got significantly worse in the last two or three years," a senior British accountant in Beijing said. "I can think of one case where we only discovered a new regulation because we happened to be in the tax office that day and spotted a small notice on the wall."

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Source 8: China and Human Rights

Hundreds of websites are blocked or banned in China. Search results are filtered and websites censored, including those using words like "freedom", "human rights" and "Amnesty International". With around 30 journalists and 50 Internet users known to be behind bars, China has been described as "the world's leading jailer of journalists".

Independent trade unions remain illegal in China. Low wages or non-payment, mass lay-offs, poor working conditions and corrupt management practices have led to a wave of labour disputes in China which have often been met by the authorities with intimidation and sometimes arrests and long prison sentences.

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Source 9: Exchange Rate Movements

	Currency	£1 buys ...	52 week high	52 week low
Eurozone countries	Euro	€1.20	€1.24	€1.10
China	Yuan	¥10.31	¥11.17	¥9.79

Adapted from © DigitalLook.com

Source 10: Board of Directors Meeting

At yesterday's Board of Directors meeting a number of issues were raised.

While the Euro (€) had strengthened in recent months against Sterling (£), making UK goods more attractive to Eurozone customers, the Board was also aware of the impact of the recession on many of their domestic customers.

It was suggested that Finn Ltd needed to reach out to customers in emerging markets such as China. The directors agreed that this would require extensive market research to be undertaken. Furthermore some Board members are determined to maintain the company's excellent corporate image and ethical stance on the sourcing of materials.

This means that future strategies will require very careful consideration.

Question 1

You are a consultant employed by Finn Ltd. You have been asked to prepare a formal report entitled "Entering the Chinese Market – the Way Forward for Finn Ltd?"

The aim of the report is to examine the main issues related to the strategic direction of Finn Ltd. You should analyse the issues associated with importing from and exporting to the Chinese market and discuss possible impacts on Finn Ltd. You should draw appropriate conclusions as to whether this proposed strategy is in the best interests of Finn Ltd.

Your report should be in an appropriate format and should include recommendations to the management team of Finn Ltd.

(You may find it useful to consider the following areas in your report: globalisation, emerging markets, international trade, economic growth, exchange rates, trade barriers, marketing mix, government policy objectives, competition, business ethics and corporate social responsibility.)

[80]

THIS IS THE END OF THE QUESTION PAPER

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