

**ADVANCED SUBSIDIARY GCE UNIT
BUSINESS STUDIES**

2872

Business Decisions

WEDNESDAY 10 JANUARY 2007

Morning

Time: 45 minutes

Additional materials: Answer Booklet (4 pages)

Candidates may use calculators in this examination.



INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Write your answers in the answer booklet.
- If you use additional sheets of paper, fasten the sheets to the answer booklet.
- Answer **all** questions.
- Read each question carefully and make sure you know what you have to do before starting your answer.

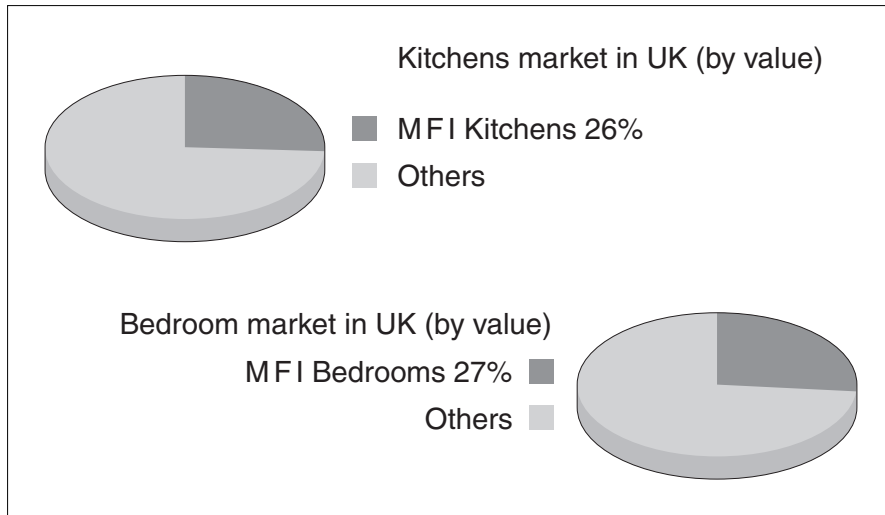
INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is 45.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This document consists of **4** printed pages.

MFI Furniture Group plc has over 190 out-of-town stores and 22 high street stores. It employs over 12,000 staff. It is by far the largest retailer of kitchens and bedrooms in the UK. It is more than twice the size of its nearest rival. In addition MFI has an arrangement to sell its kitchens within Currys stores under the 'Hygena @ Currys' brand.

Fig. 1. Kitchen and Bedroom UK Market Share



Adapted from www.mfi.co.uk (2005)

Kitchen Market Review 2000–2004

Growth in the kitchen market was strongest in 2002. This was due to the buoyant housing market. Homeowners added value to their property by investing in their kitchens. In 2003 the value of the market contracted reflecting a slowing in the housing market with interest rate increases and declining consumer confidence. However, in 2004 the kitchen market is estimated to have increased to £847.7 million. This reversed the trend of the previous year.

Kitchen Market Forecast 2005–2009

A market forecast for 2005–9 indicates that sales of kitchens will rise to £896.4 million in 2009. Much of this growth is anticipated to be generated from new building activity in both the public and private housing sectors.

Adapted from *Market and Business Development* (2005) www.mbdltd.co.uk

Press release: Update on Hygena @ Currys 11 May 2005

Following a review, Dixon's Group (which owns Currys) and MFI Furniture Group have agreed to end their joint venture, Hygena @ Currys. While the venture showed some success, the sales growth was not enough to justify continuing in the longer term. The closure programme for Hygena @ Currys will take place between July and September 2005. Hygena @ Currys trades in 130 of Currys' 370 stores and employs around 400 staff. All customer orders will be honoured including full after-sales service. A consultation process will involve working closely with all those affected.

Adapted from www.mfigroup.co.uk

Costs

MFI is making good progress with its £40 million cost reduction programme including:

- head office/central function job losses and reduced spending on consultants
- reduced marketing spend in all areas, other than direct advertising
- renegotiated logistics and customer service costs, including charging for home delivery.

Exceptional items include:

- £5.4 million for disruption to the supply chain and UK redundancy costs
- £5.7 million of closure costs and £1.6 million for future trading losses, in respect of the closure of Hygena @ Currys.

Adapted from MFI Furniture Group plc Interim results for the 24 weeks to 11 June 2005

Implementing New Stock Management Systems

Centralised Home Deliveries involve over 50 million items a year. These go to 2.5 million households in the UK. The introduction of a new stock management system in 2004 was essential to support the growth and development of the business. The new hardware and software provided new systems to link the factories, suppliers, warehouses and customers. The call centre in Sunderland forms a key part of MFI's Home Delivery service to the customer by linking all elements of the company. The aim was to have clear visibility of stock along the supply chain, enabling accurate first-time deliveries to the customer at the time of their choice.

However, the problems of putting the new system into operation caused significant disruption to the home delivery service to MFI customers. The associated costs and customer refunds have substantially reduced profits.

Adapted from www.mfi.co.uk/international and MFI Annual Report 2004

- 1 Outline **two** ways that MFI has achieved its cost reduction programme. [4]
- 2 (a) Calculate the amount by which MFI could expect its sales from the kitchen market to increase between 2004 and 2009. [5]
 - (b) Discuss the importance of the issues MFI needs to consider in order to maintain its market share in the kitchen market. [10]
- 3 Discuss the human resource management implications of closing Hygena @ Currys. [12]
- 4 Evaluate possible costs and benefits to MFI of improvements to its stock management system. [12]

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