

GENERAL CERTIFICATE OF SECONDARY EDUCATION

BUSINESS STUDIES A

Paper 7 (Foundation Tier) and Paper 8 (Higher Tier)

1951/07/CS
1951/08/CS

PRE-RELEASE CASE STUDY

To be opened on 1 January 2009

JUNE 2009



INSTRUCTIONS TO TEACHERS

- The case study may be given to candidates at any time after 1 January 2009.

INSTRUCTIONS TO CANDIDATES

- You **may** make yourself familiar with the case study before you take the question paper.
- You may **not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.

INFORMATION FOR CANDIDATES

- This document consists of **12** pages. Any blank pages are indicated.

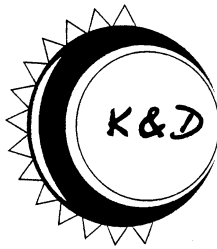
Knights and Daze

Mike Knight trained as a furniture maker 30 years ago taking over the family business and factory 10 years ago when his father retired. He always felt he had the qualities to succeed in business. The past 10 years have seen many changes in the home furnishing industry which has taken much of the production out of the UK and into countries in Central Europe where production costs are currently lower.

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In order to move the business forward Mike formed a partnership by bringing in two employees, Colin Day and Christine Davies as partners. Mike now concentrates on exploring new sources of raw materials and the production of the furniture. Colin is in charge of research and development and Christine is in charge of marketing. Christine has recently designed a distinctive logo for the business, which includes the initials of the company (K&D) and images of a sun and moon.

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One of the many changes that Mike has made is that the business now concentrates on high quality pieces of furniture made to exclusive designs. The business only produces and sells dining room furniture and beds hence the name Knights and Daze (K&D)! The best quality oak, which is very expensive, is bought from Nikos, a timber merchant in Finland. This oak is used to make the furniture which is produced by Andreis in Slovenia. K&D used to make the furniture in a small town in South Wales but as costs rose the business sold its factory and moved its production into Central Europe where costs are currently lower. Both Finland and Slovenia are members of the European Union (EU) which also offers some advantages to K&D. The move out of South Wales was widely reported in the local area and the community was hit by the loss of jobs. However K&D does maintain a small office in the town.

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The finished products are transported to England and sold to large department stores in England and Wales. Mike has found that it is much more cost effective to sell a specific range of furniture to the large department store chains. However, the business has recently set up a website to sell direct to customers, but these people still represent only 2% of total sales by value. Christine wants to expand this market and is carrying out research into selling on the Internet.

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Mike has spent a considerable amount of time and money researching the best suppliers and producers of the products, and in general he has been very pleased with the response to his products from the stores and the customers.

There have, however, been three complaints from a large department store showing that customers have not been happy with products when they have been delivered and that delivery times are too long (**See Resource Sheet 1**). Mike and Colin realise that the cause of the problems must be identified and resolved as soon as possible if the reputation of K&D is not to be damaged. Christine has been asked to review the advantages of selling through department store chains as they realise that a decision about the present quality control and quality assurance situation must be taken quickly in order to eliminate any weaknesses in the selling process. She wonders whether using customer feedback forms or carrying out a customer satisfaction survey might help.

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Fig. 1 shows the chain of production and channel of distribution for K&D.

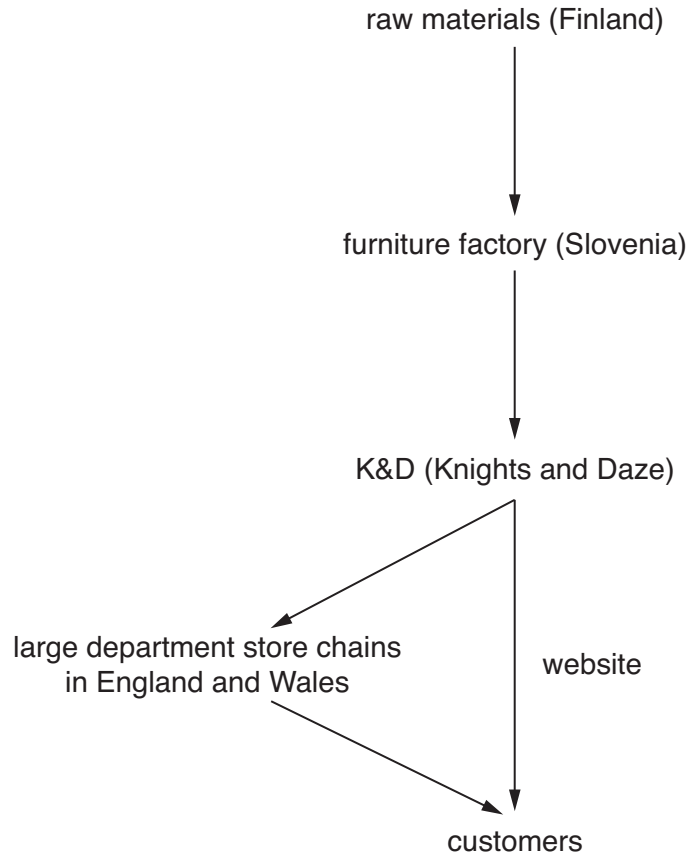


Fig. 1

K&D has grown quickly in the last 3 years and the partners are considering becoming a private limited company. This would give them all a greater sense of security and perhaps encourage others to invest in the company. 40

The demand for furniture continues to grow with the increasing number of houses being built. The market for furniture is also highly competitive as customers begin to demand high quality and up-to-date designs in their furniture. Mike does realise however that there are other external factors which may affect future plans and profitability. 45

K&D has built its reputation on high quality exclusive designs with a few different features in each line. For example it offers a number of different chair covers and headboards with the overall design remaining the same. (See Resource Sheet 2)

Although the business makes few direct sales to customers, Mike feels that it is important that he understands the needs of the people who will buy his product. Quality furniture is a product which is bought only two or three times in a person's lifetime and is bought to fit in with a 'whole' design which includes colour of walls, carpets, light from windows and fashion. Therefore it is important that K&D knows exactly how fashion is changing in all these areas. This is particularly important in the furniture trade, as the manufacture of the furniture cannot be changed overnight. It must predict changes in demand, rather than reacting to them. 50 55

Fig. 2 shows some of the responses to research carried out by K&D into the furniture buying habits of customers.

Mr Ahmed Khan, 55, Company Director in Cardiff

'I am about to retire and I want to replace furniture we have had for years. I want stylish, good quality products which will last the rest of our lives.'

Ms Veronica Wells, 33, IT Analyst in Cambridge

'I have just bought my own flat in Cambridge and I don't have much money left over after paying the mortgage. I will be buying the best quality modern furniture that I can afford.'

Mr and Mrs Jan Jedrzejak, 25 and 24, nurses in Manchester

'We have just moved into an unfurnished flat. We will be buying flat pack furniture from a large furniture store.'

Fig. 2

Christine has realised that marketing the business to department store chains requires a different approach than advertising direct to customers. She has the job of developing a marketing strategy for the coming year in the hope of attracting more department stores to stock the furniture and at the same time increase online sales. The budget for marketing to department store chains is only £150,000 and Christine has to decide on which areas of marketing to concentrate in order to achieve the best increase in sales. She recognises that for K&D product development is the most important marketing area.

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Fig. 3 shows the percentage (%) of K&D's total marketing budget for department store chains Christine has decided to allocate to each area of marketing.

Marketing Areas	% of allocated budget
Market Research	20
Product Development	30
Price	10
UK Distribution	20
Promotion	20

Fig. 3

The prices of the furniture made by K&D and the prices of similar furniture made by its competitors are shown in **Resource Sheet 3**.

- Christine's marketing decisions have been based on the following factors: 70
- number of competitors selling a similar type and quality of furniture
 - target market
 - profit margin
 - quality of products
 - past sales 75
 - demand from department stores
 - expected increase in online sales.

Meanwhile, Colin has been developing new designs and combinations of furniture to expand the product range. In particular he has concentrated on wardrobes and storage units to complement the existing beds and dining room furniture. He is expected to give a presentation to Mike and Christine in a week with suggestions about which products would be the best to introduce over the coming year. 80

Taking account of the expected expansion of products and marketing, Mike has asked his accountant to draw up a forecast Trading, Profit and Loss Account and Balance Sheet for 2009/10. They would need to present this if they apply for company status. The accountant has also included the accounts for 2008/9 and 2009/10. (**Resource Sheet 4**) 85

The expansion of the product range will also affect the factory in Slovenia. At present it makes furniture for two other companies and does not have sufficient capacity to meet the increased demand for products from K&D. Mike has discussed the new demands for the products with Andreis and the other partners. Mike has suggested that one of the following might be a solution to the problem: 90

- Andreis would only make furniture for K&D and no other company. In return they would get all of K&D's business and K&D would invest in new premises and machinery. K&D would also invest in training for the workers.
- K&D moves the whole of the production of the furniture back to the UK. 95
- K&D finds another producer in Slovenia to make all K&D's furniture.

Back in the UK Mike investigated what other human resource implications there could be arising from the proposed expansion. The business will need to recruit a Marketing Assistant for Christine and an Assistant Designer for Colin.

They are in the process of drawing up job descriptions and person specifications. When they have received the applications the partners have agreed to meet and draw up a shortlist. 100

Christine and Colin have also become concerned over the changing workload and responsibilities of partners and have said that at the next partners meeting they want to discuss an increase in salary and/or benefits if the expansion goes ahead.

RESOURCE SHEET 1**Extracts from letters of complaint****Letter 1**

'I received my furniture last week and when I inspected it closely I found that the joints in the chairs were badly made and in some cases loose. Since the chairs cost me £200 each I would be grateful if you could replace these as soon as possible ...'

Letter 2

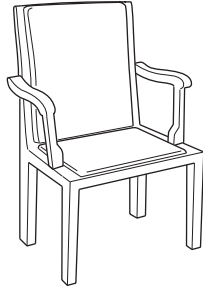
'We are still waiting for our new dining room furniture which I was assured would be received in time for Christmas. It is very disappointing to hear that this will not be the case and that it may be well into the New Year before we get the furniture.'

Letter 3

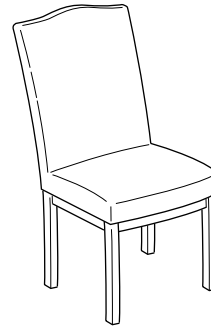
'I received my new bed three weeks ago which was put together by the delivery person. One of the bolts on the legs has become loose and the bed now feels as if it is going to fall down. This bed cost me £3000 and I would expect to be able to use it with no problems ...'

RESOURCE SHEET 2

Chair – Carver
(a chair which has arms)



Chair – Dining
(a high-backed chair without arms)



Chair Covers:

Cloth

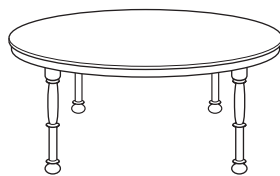
Stone

Leather

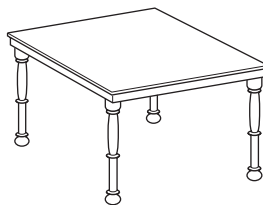
Red
Navy
Black
Brown

Tables:

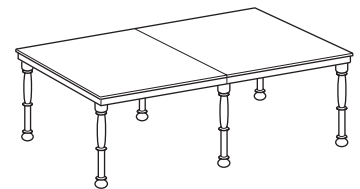
Oval



Square

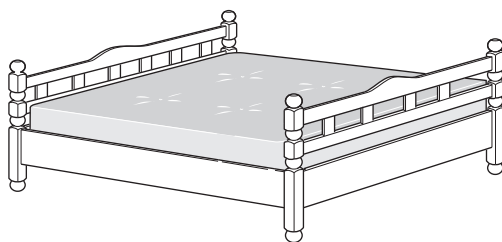


Extending
(a table which can be made longer)

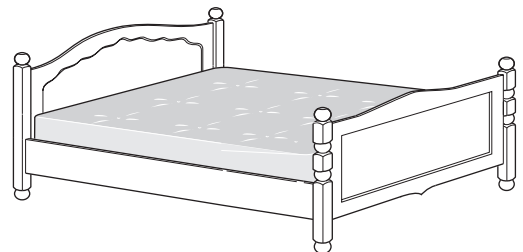


Beds:

Kingsize
(an extra large bed with a slatted headboard)



Deluxe
(a bed with a solid headboard)



RESOURCE SHEET 3

Table showing prices for furniture from K&D and its competitors DFM and IHD

Prices:

Type of furniture	K&D(£) (trade prices)	K&D(£) (Recommended Retail Price RRP)	K&D(£) (price on Internet)	DFM(£) (Recommended Retail Price RRP)	IHD(£) (Recommended Retail Price RRP)
Tables:					
Oval	750	1500	1350	850	900
Extending	600	1200	1100	600	650
Square	500	1000	900	550	700
Chair (each)					
Carver	100	200	175	100	120
Dining	75	150	125	90	100
Chair covers:					
Cloth (each)	Included in price of chair	Included in price of chair	Included in price of chair	20	25
Leather (each)	Included in price of chair	Included in price of chair	Included in price of chair	25	30
Beds:					
Kingsize	1500	3000	2750	1800	2000
Deluxe	1250	2500	2300	1000	1500

RESOURCE SHEET 4

Trading/Profit and Loss Account

	2009/10 (Forecast) (£)	2008/9 (£)
Total Sales	2,000,000	1,800,000
Less Cost of Sales	750,000	500,000
Gross Profit	1,250,000	1,300,000
Less overheads	1,000,000	900,000
Net Profit	250,000	400,000

Balance Sheet

	2009/10 (Forecast) (£)	2008/9 (£)
Fixed Assets	750,000	500,000
Current Assets	250,000	180,000
Less current liabilities	200,000	100,000
	50,000	80,000
Net Assets	800,000	580,000

Capital

Capital	650,000	300,000
Net Profit	250,000	400,000
Less drawings	900,000	700,000
	200,000	180,000
Long Term Liabilities	700,000	520,000
	100,000	60,000
Capital Employed	800,000	580,000

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