

**GENERAL CERTIFICATE OF SECONDARY EDUCATION**

**BUSINESS STUDIES**

Production, Finance and the External Business Environment

**A293/CS**

**CASE STUDY**

**Monday 6 June 2011**

**Morning**

**Duration: 1 hour 30 minutes**



**INSTRUCTIONS TO CANDIDATES**

- This is a clean copy of the Case Study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may **not** take notes into the examination.

**INFORMATION FOR CANDIDATES**

- This document consists of **8** pages. Any blank pages are indicated.

**INSTRUCTION TO EXAMS OFFICER/INVIGILATOR**

- Do not send this Case Study for marking; it should be retained in the centre or destroyed.

The article below is from the East Moorshire Times, a local newspaper serving the eastern region of the county of Moorshire.

## **EXTRACT 1 – ARTICLE FROM THE EAST MOORSHIRE TIMES**

### **BUSINESS SCENE – FROM PROSPERITY TO GLOOM TO WHO KNOWS?**

This week's 'Business Scene' examines very recent developments in the economy of East Moorshire. The last decade has been a roller-coaster for businesses and workers in the region. It started off so well. Existing businesses were thriving and the levels of employment and incomes were rising. The population also grew as workers came from Eastern Europe to work in the area. This has had an impact on many local services such as education and health. Then came the world wide 'credit-crunch.' The period from 2008 to 2010 saw a recession – a period of falling production and rising unemployment. It was the worst recession seen in East Moorshire since the 1930s. At its height, it was reported that five businesses a day were closing and unemployment between 2008 and 2010 grew from 20,000 to 28,000.

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The latter part of 2010 has seen some improvement in business fortunes. The local council is encouraging inward investment. Business leaders are more confident than they were as demand picks up in the UK and in the world economy. However, East Moorshire County Council is cutting spending on many services.

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One industry badly affected by the recession was cheese-making. Three out of the seven local producers closed during the period 2007 to 2009. Lathom's Dairy was one cheese-maker which survived. Partner and manager, Eric Lathom, said, 'Surviving the recession was a painful business. Some tough decisions had to be made to cut costs including making redundancies'. Eric is, however, cautiously optimistic about the future. 'There are some positive signs which are encouraging us but there are still a lot of unknowns. The closure of three competitors producing world-famous Moorshire cheeses was not all good news for the industry.'

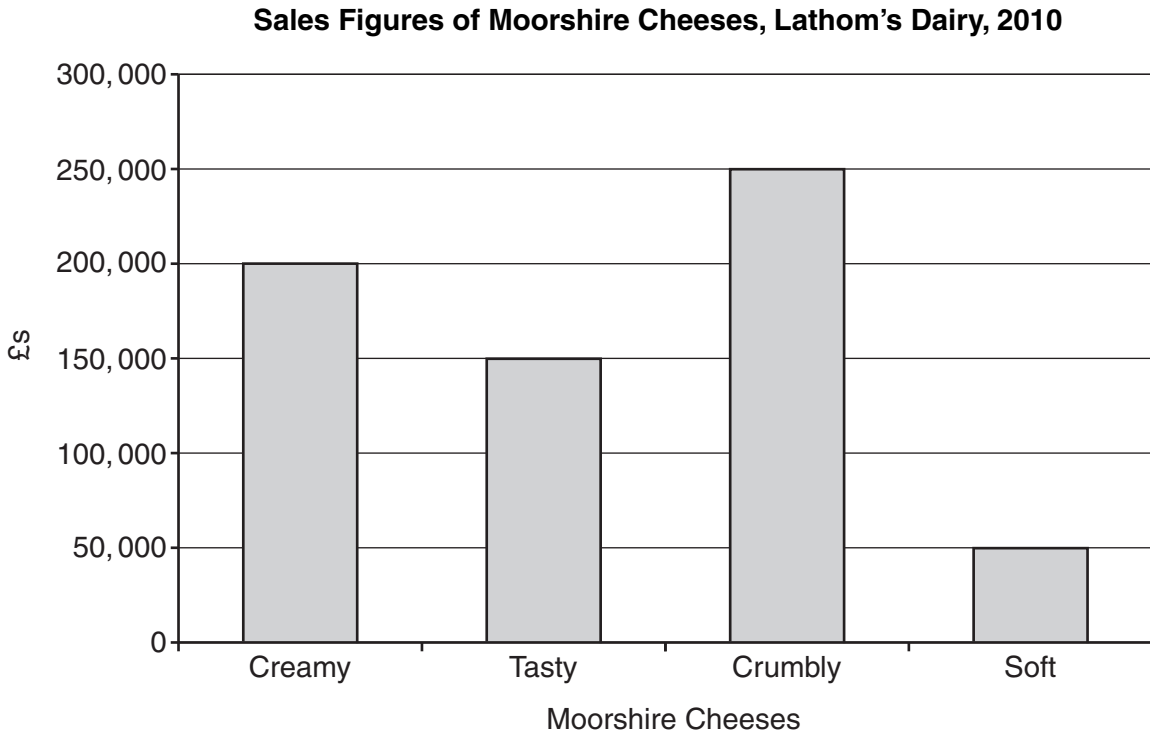
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**EXTRACT 2 – LATHOM’S DAIRY – SALES INFORMATION**

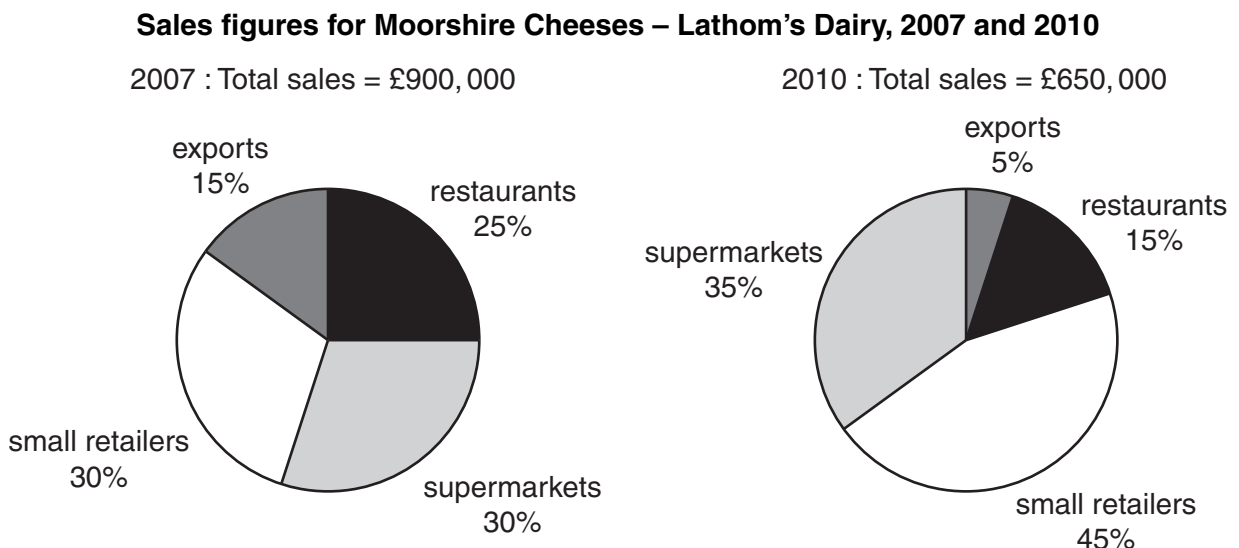
East Moorshire is famous for its cheeses. There are now just four local producers, the biggest of which is Lathom’s Dairy. It is a partnership owned and run by Eric and Alice Lathom. Lathom’s Dairy has won awards for the quality of its cheeses.

Fig. 1 below shows the Moorshire Cheeses which Lathom’s Dairy sold in 2010.



**Fig. 1**

Fig. 2 below shows the buyers of cheese from Lathom’s Dairy in 2007 and 2010.



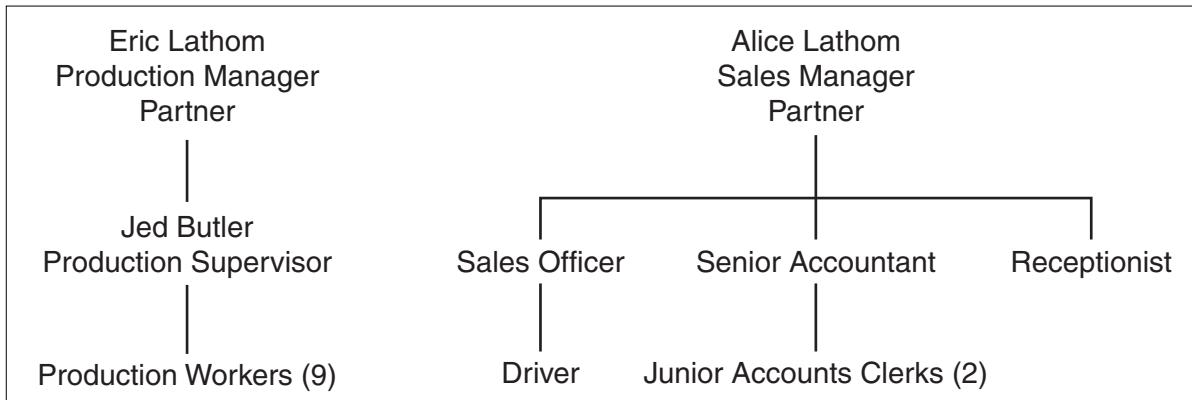
**Fig. 2**

Eric and Alice Lathom are particularly disappointed by the change in export sales. The Dairy’s main export markets were Canada and the United States, Australia and European Union countries. Sales to these countries fell during the recession. Eric and Alice hope that demand in these countries will improve to help the Dairy’s sales. Eric also recognises that changes in the exchange rate will affect their business.

### EXTRACT 3 – LATHOM’S DAIRY – ORGANISATION CHART

Fig. 3 shows the current organisation of Lathom’s Dairy.

**Lathom’s Dairy – Organisation Chart – 2011**



**Fig. 3**

The organisation of the business has changed since the start of 2008 when Lathom’s Dairy employed 12 production workers and three accounts clerks. One of the accounts clerks began to work as a receptionist when the receptionist at the time retired in 2008. She still does some accounts work when there is a lot of work to do. There were two drivers who distributed the cheeses in 2008.

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The production workers are all skilled, specialist cheese-makers who have been trained by Lathom’s Dairy and where they gained the experience to become part of the award-winning team. Although the production workers are highly paid, Eric did his best to avoid making more redundant. Since 2008, production workers have sometimes acted as drivers when extra deliveries have needed to be made in busier periods.

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**EXTRACT 4 – WORK SCHEDULE**

All the cheeses Lathom's Dairy make are hand-made. Fig. 4 shows the weekly work schedule for making the different cheeses.

**Weekly Work Schedule – Lathom's Dairy**

	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>
<b>Morning</b>	Crumbly Moorshire	Crumbly Moorshire	Creamy Moorshire	Tasty Moorshire	Soft Moorshire
<b>Afternoon</b>	Crumbly Moorshire	Creamy Moorshire	Creamy Moorshire	Tasty Moorshire	No production – development work.

**Fig. 4**

Since the beginning of 2009 production workers, apart from Jed Butler, the Production Supervisor, have been sent home at lunch time on a Friday as a cost-saving measure. On Friday afternoons, Eric Lathom and Jed Butler have been working together to develop new varieties of cheese.

## EXTRACT 5 – GREEN PRODUCTION

Lathom's Dairy produces its cheeses from organically produced milk. All the milk comes from local farms. The Lathom's Dairy website proudly claims:

*'All the milk we use is organically produced. All the farms which supply us are local – the furthest is only 15 miles away.'*

Eric and Alice Lathom are committed to making Lathom's Dairy a green, environmentally friendly and ethical producer. In addition to the measures they already take, they intend to install a wind turbine on their land to generate electricity. To help pay for the wind turbine, Lathom's Dairy will get a grant from the government, although it will still have to pay some of the costs itself.

## EXTRACT 6 – MOORSHIRE GOAT'S MILK CHEESE

In December 2010, in order to increase its product range, Lathom's Dairy took over a small competitor – Wright's Farm. Wright's Farm produces only a goat's milk cheese. Eric and Alice have decided to operate Wright's Farm as a separate business which will only produce Moorshire Goat's Milk Cheese at its existing dairy.

Fig. 5 shows the cash flow forecast for Wright's Farm for the third quarter of 2011.

### Cash Flow Forecast – Wright's Farm – July–September 2011

	July £s	August £s	September £s
Balance brought forward	2,000	1,400	(1,000)
<b>INCOME</b>			
Sales of goods	10,000	8,000	11,000
<b>TOTAL INCOME</b>	12,000	9,400	10,000
<b>EXPENDITURE</b>			
Materials	3,000	3,000	3,000
Energy costs and other costs	600	400	700
Wages	6,000	6,000	6,000
Transport	400	400	400
Interest payments	600	600	600
<b>TOTAL EXPENDITURE</b>	10,600	10,400	10,700
Balance carried forward	1,400	(1,000)	(700)

Fig. 5

## EXTRACT 7 – BOWTON BLUE

Eric Lathom and Jed Butler have developed a new exclusive cheese called Bowton Blue. This is produced using the traditional method of hand-made cheese production. It is a blue-veined cheese named after the nearest large town. Market researchers have tested this cheese and found that it is well liked, particularly in the United States and Canada.

Although the cheese is made using traditional methods, Eric is also considering the use of mass production methods. Eric has estimated the following revenue and cost data for producing a 900g cheese by traditional and by mass production methods. His estimates are shown in Fig. 6.

### Estimated Revenues and Costs of a single 900 g Bowton Blue Cheese

Item	Traditional Hand-Made Cheese	Mass Produced Cheese
Selling price	£30	£18
Cost of sales	£15	£8

Fig. 6

### *Estimated Sales of Bowton Blue*

Market research suggests the following sales figures for Bowton Blue in its first year:

Traditional hand-made Bowton Blue = 3,000 cheeses

Mass produced Bowton Blue = 5,000 cheeses

### *Mass Production Costs*

If Eric decides to mass produce the Bowton Blue Cheese, Lathom's Dairy will have to pay for an extension to its factory, as well as new cheese-making machinery. The costs of these are:

- factory extension £90,000
- cheese-making machinery £60,000

Whichever method is chosen to make Bowton Blue Cheese, Eric knows that Lathom's Dairy will need to finance the purchase of extra milk, as well as spending on other ingredients.

Before being able to calculate the net profit which Bowton Blue Cheese is likely to make in its first year, Eric knows that he must also consider other costs.

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