A-level
BUSINESS
Paper 3 Business 3

Insert

Source 1: Vignal Babbel Motors (VBM)

Vignal Babbel Motors (VBM)

Background information

Vignal Babbel Motors (VBM) is a car manufacturer based in Europe, with roots dating back over 100 years.

The car industry has changed rapidly in the last 20 years and the business has struggled to keep up with the pace of external change. VBM's previous success was based on a core competence of designing and building extremely efficient, reliable and long-lasting diesel engines.

Over 100 European cities have now introduced legislation creating low emission zones. This means that most diesel-powered vehicles' owners have to pay a daily fee to enter these zones. In addition, several European countries have announced that sales of new petrol- and diesel-powered vehicles will be banned in the future (see **Appendix A**). As a result, sales of diesel-powered vehicles have begun to fall rapidly in VBM's traditional European markets (see **Appendix B**).

VBM only began work on developing electric vehicles five years ago. The company does not expect to launch an electric-powered vehicle until next year. Many competitors are already selling large volumes of electric vehicles.

VBM's sales in Europe have fallen due to increased environmental concerns. However, demand for VBM's traditional diesel-powered vehicles has been rising in some parts of South-East Asia, particularly Vietnam. The directors have started to discuss plans to build and operate a new factory in Vietnam to meet the rising demand in its South-East Asian markets.

Internal conflict

Meetings of the Board of Directors have been difficult for the last few years. Several directors have argued that the company must fight hard to maintain its share of the European market. They argue for the need to show loyalty to the company's employees and traditional customer base in Europe. They hope this will avoid the bad publicity caused by factory closures and the related redundancies.

However, another group of directors has stressed the need to better match capacity to changing global patterns of demand. This group proposes a strategy of retrenchment – closing three of VBM's four European factories. These closures would mean around 5000 redundancies. VBM would maintain just one European factory that would concentrate on producing electric vehicles for the European market. The capital released could be used to fund the construction of the proposed factory in Vietnam.

Major changes agreed

The proposals to retrench VBM's European operations and build the factory in Vietnam were approved at last month's annual shareholders' meeting. Since then, plans have been developed for the opening of the Vietnamese factory (see **Appendix C**). VBM's Operations Director is leading the project. He has drawn up a network diagram showing that the factory could be opened in a year.

The HR Director has warned that the diagram is based on some optimistic assumptions:

'We have no experience of operating in Vietnam. We will need to understand recruitment systems and legislation plus train staff to operate the technology that we plan to use in the factory.'

The HR Director has advised that:

- the time allowed for recruitment should be increased by one month
- training the new workforce will take two months longer than initially predicted.

Retrenchment in Europe

Meanwhile, a retrenchment plan has been developed. This plan deals with:

- the process of closing three European factories
- adjusting VBM's marketing strategy to selling electric vehicles instead of petrol- and diesel-powered vehicles in Europe.

The plan also:

- outlines how and when announcements of factory closures plus 5000 redundancies will be made
- includes details of the redundancy settlements required for staff
- details the HR department's role in consulting with stakeholder groups on how to reduce the effects of the factory closures.

Appendix A

Table 1 Selected places where legislation has been passed, banning sales of new petrol- and diesel-powered vehicles, showing date when ban starts

Place	Start of ban
Norway	2025
UK	2030
EU	2035
California (USA)	2035
Quebec (Canada)	2035
China	2035

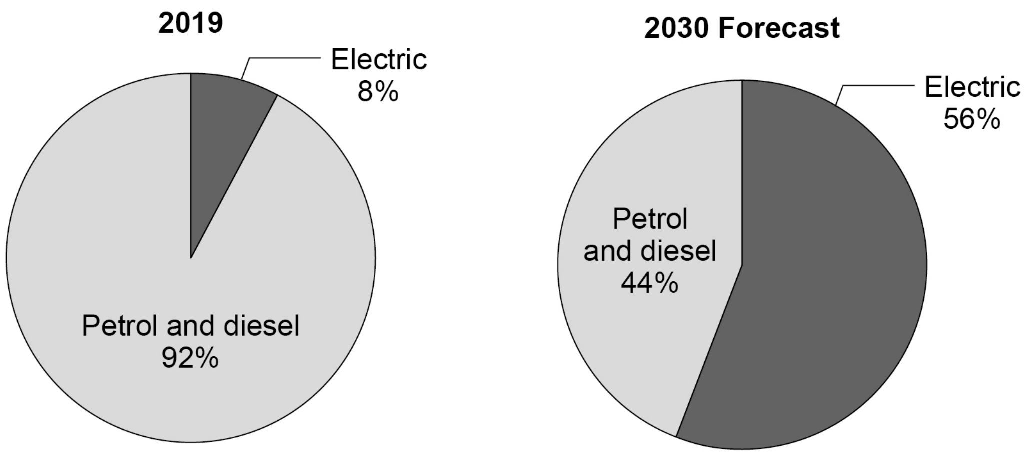
Turn over for Appendices B and C

Appendix B Total car sales by power source

Table 2 Percentage of total car sales in the EU that use diesel engines

Year	Diesel-powered vehicles' share of European Union car market
2015	52%
2019	32%
2025 (forecast)	17%

Figure 1 Global car sales market share by power source

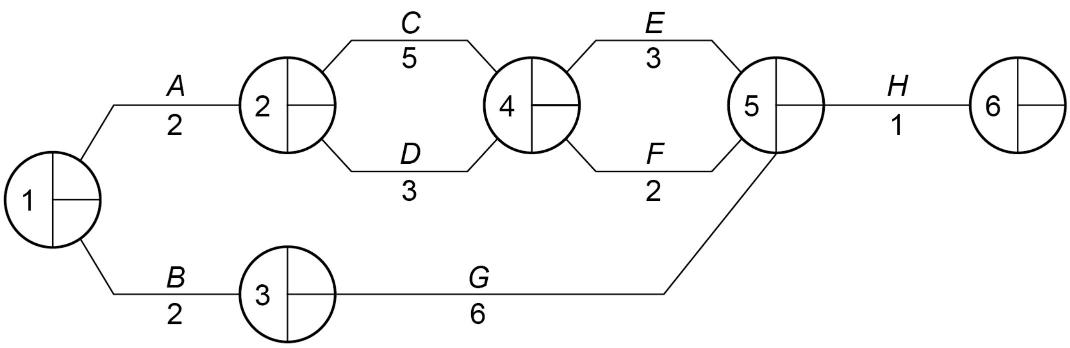


Appendix C

Table 3 Data used to construct network diagram in **Figure 2**

Activity		**Operations Director's expected duration (Months)**
A	Prepare site	2
B	Recruit workforce	2
C	Build factory building	5
D	Purchase production equipment	3
E	Find and contract suppliers	3
F	Install equipment	2
G	Train workforce	6
H	Test production line	1

Figure 2 Network diagram for new factory opening



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