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A2 GCE BUSINESS STUDIES

F296/01/RB Business Production

RESOURCE BOOKLET

Duration: 2 hours

To be given to candidates at the start of the examination



INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–6 is contained within this Resource Booklet.

INFORMATION FOR CANDIDATES

- The information contained within this Resource Booklet is based upon one or more real businesses.
- This document consists of 4 pages. Any blank pages are indicated.

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DreamWood Ceramics Ltd (DWCL)

DreamWood Ceramics Ltd (DWCL) is a family owned and run ceramics business located near Stoke-on-Trent in the Midlands. It employs 52 staff. In an area traditionally the home of pottery manufacturing, DWCL excels at producing high quality tableware – plates, cups, etc. It is attention to innovative and ‘classy’ design and using the finest materials, which has made DWCL’s products popular in some very exclusive retail outlets in the UK. Despite a regional decline in this industry, DWCL has managed to thrive in terms of sales, and yet its ability to make a profit seems to be problematic. 5

Steve Renshaw, the Managing Director of DWCL, has always claimed that the firm is ‘recession-proof’. Indeed, he regularly states that “the wealthy will always buy our ceramics, and there are always wealthy people out there somewhere”. Indeed, over the last week Steve kept dropping hints to family members of a ‘big surprise’. 10

The production process is relatively simple and one with which Steve has little involvement. At one end of the premises regular, small deliveries of different types of premium clay, glaze and other raw materials arrive from a number of local and national suppliers. The prices of these materials fluctuate. These materials are stored haphazardly in a general storage area. The clay is cut before being shaped, both by hand and machine, into various items of tableware. These are then fired in an industrial kiln before being glazed with colours, further firing and decoration. The workforce is skilled, yet there is little opportunity for specialisation. The products are of the highest quality, yet there is a lot of waste during the process and a high reject rate at the end. Not all finished goods are sold immediately. 15 20

In Steve’s view however, capacity is DWCL’s primary concern. DWCL often hires extra equipment for large orders, but there is simply not the space to produce on the scale Steve would like. Indeed, the cramped conditions do not make for easy logistics or a particularly happy workforce. As one of DWCL’s highly professional product designers recently pointed out, “medieval working conditions in premises the size of a primary school hall, turning out beautiful dinner plates for the rich, is a contradiction that is not lost on most of us on the factory floor”. Steve usually deals with such discontent by paying the employees a small bonus. 25

Steve would like to expand DWCL’s productive capacity, output and maybe even its product range. This might allow the employment of some much needed specialist managers. He has seen a vacant new building nearby which is about four times the size of the current premises. However, if Steve were to be truly honest, he does not really know the production levels at which he wants DWCL to operate, nor if it is affordable. 30

Steve feels that the business needs external input if it is going to move forward. One option is the Lovehome Retail Group (LRG), an American owned company, which has closely monitored DWCL for some years. Running a vast food, clothing and home furnishings business, LRG specialises in taking over small, specialist firms which complement its other business interests, usually improving their efficiency. LRG is very aware of the DWCL brand and is considering offering £1.5 million for a 40% stake in the business. As part of this consideration, one of LRG’s directors, Wendy Lee, at Steve’s invitation, made a preliminary visit to DWCL. She was shocked at the actual operation that DWCL runs. She described it as “semi-organised chaos, which by some miracle turns out some of the best tableware on the market”. 35 40

Wendy listed the following causes for concern in her report back to LRG:

- lack of both strategic and operational direction
- high levels of waste
- very inefficient staff in terms of both cost and output 45
- an unsophisticated analysis of costs and a reliance on break-even analysis as a decision-making tool
- an inconsistent pricing policy
- under-utilisation of technology
- systems more appropriate to very small scale production. 50

Wendy, who spent the first part of her career in the car industry, feels that DWCL is ready for a complete overhaul. Her approach would be to start with a work study and then, in the light of DWCL's issues, recommend a number of lean production techniques. Indeed, she would not recommend any investment from LRG unless this happened.

Steve and his family have much to discuss. £1.5 million is a considerable sum of money and undoubtedly productivity would improve, but at what cost? And what are DWCL's strategic objectives anyway? 55

It was at this point in the discussions with his family that Steve revealed his 'big surprise'. He has received a letter, from a very famous Russian billionaire. Apparently, the Russian has always admired DWCL's products. He would like DWCL to supply him with a one-off order of 900 sets of plates (three sizes per set) for a banquet next month. He is prepared to pay £19 per set. Steve's initial reaction to this offer was cautious. DWCL's 'standard' set of plates usually sells for £28. In addition the very high specification demanded by the Russian means that DWCL might have to source a new glaze from a different supplier and possibly acquire a new 'SuperHeat' kiln costing £25 000. Steve thinks that for a 'one-off' order he might get away without buying a new kiln. It is the final two lines in the letter, however, which has him very tempted. It states, "do this on my terms now and you can name your price for the thousands of plates you will sell to all of my associates back home in the coming years. You will not regret it, I promise." 60
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