

# OCR

Oxford Cambridge and RSA

**Wednesday 6 June 2018 – Afternoon**

**GCSE BUSINESS STUDIES**

**A293/01/CS** Production, Finance and the External Business Environment

**CASE STUDY**

**Duration:** 1 hour 30 minutes



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## Introduction

The case study focuses on the regeneration of the town of Bowton. In particular, it focuses on Tom's Toys, which is a small toy shop located in the town, and a large toy manufacturer, GG Toys plc. Bowton is a town in the County of Moorshire in the north west of England.

### Section 1 Is it the end for Bowton?

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Between 2008 and 2011 economic conditions in Bowton were very difficult. Unemployment rose by 6000, meaning that by 2011 14,000 out of a workforce of 80,000 were out of work. Incomes fell by 8% on average, 42 businesses closed and only 15 start-ups occurred. The local newspaper published an article in 2011 with the heading, 'Is it the end for Bowton?'

By 2014, there had been some growth in business activity in Bowton and employment had increased though most of the increase was in low paid, part-time jobs. It was forecast that there would be a rise in the sales of goods in Bowton.

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The Bowton Town Council 'Regeneration Plan' for business activity was implemented in 2012. It was to be implemented over a period of 10 years, ending in 2022. The Council had decided to encourage businesses in Bowton by offering grants to those that wanted to locate or expand in the town. By the start of 2018 over 7,000 jobs had been created in the town. Michelle Gledhill, spokesperson for Bowton Town Council said "Without our investment, job creation would not have happened. Many companies would not have located here," claimed Ms Gledhill. In addition to this, a new multiplex cinema, three new housing developments and a shopping development had been built by private developers who were now seeing the potential of the town. Ms Gledhill said that the prices of both commercial properties (such as retail outlets and warehouses) and houses were rising and this was a sign of increased confidence in the town. Critics of the Regeneration Plan have complained about the cost of the grants, the rises in council tax, and the high rate of business rates imposed by Bowton Council.

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### Section 2 Report on the UK Toy Market – Sanjay Market Research Ltd

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The following is taken from a research report about the state of the UK toy market conducted by Sanjay Market Research Ltd. The report was published in 2014.

"There have been significant changes in the UK toy market during the last 10 years. Overall, sales in the market continue to grow. We are seeing a significant increase in the sales of computer video games. As with other retail sectors, there has been a growth in online sales for traditional toys. There has also been an increase in the number of specialist shops selling computers and video games."

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### Section 3 Tom's Toys

Tom's Toys is a small shop in a suburb of Bowton. The business is owned and run by Tom Cansell. The shop sells a range of toys including train sets, construction models, dolls and games. It imports 40% of the toys that it sells from countries that are in the European Union (EU), 30% from non-EU countries and 30% are bought from UK toy manufacturers. Tom has been considering setting up a website to export toys and has looked at the possibility of selling to consumers in other EU countries and in the USA, Canada, Australia and New Zealand. Tom has read a lot about the advantages of UK membership of the EU in terms of there being no tariffs on trade between member countries, common regulations and the free movement of people. He has also read about the problems of being in the EU and the opportunities for UK trade which might come after the UK leaves the EU in 2019.

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Fig. 1 shows the cash flow forecast for the first four months of 2018 as drawn up by Tom.

	January	February	March	April
	£	£	£	£
Balance brought forward	4000	2480	80	-2720
<b>INCOME</b>				
Sales	7600	4800	4200	3700
<b>TOTAL INCOME</b>	7600	4800	4200	3700
<b>EXPENDITURE</b>				
Stock	3200	2600	2400	2240
Wages	3120	2800	2800	1900
Expenses	2800	1800	1800	1500
<b>TOTAL EXPENDITURE</b>	9120	7200	7000	5640
Balance carried forward	2480	80	-2720	-4660

**Fig. 1 Cash flow forecast, Tom's Toys, January – April 2018**

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#### **Section 4 GG Toys plc**

GG Toys plc is a large company which produces a range of traditional toys such as train sets, construction models, action figures and dolls.

GG Toys plc used to manufacture in Bowton. In 2010, it moved production of the toys to China. The Managing Director of GG Toys plc, talking about the move, said, "Whilst this will cause some job losses, mainly amongst low or unskilled production workers, it is necessary for the survival of GG Toys. The Head Office of GG Toys plc will remain in Bowton. In particular, it makes sense for the Marketing Department to stay in Bowton."

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GG Toys plc sells mainly through specialist toy shops and through larger toy retailers, supermarket chains and department stores. 30% of its output of toys is exported to other EU countries.

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#### **Section 5 Costs associated with the production of the Georgie Girl doll**

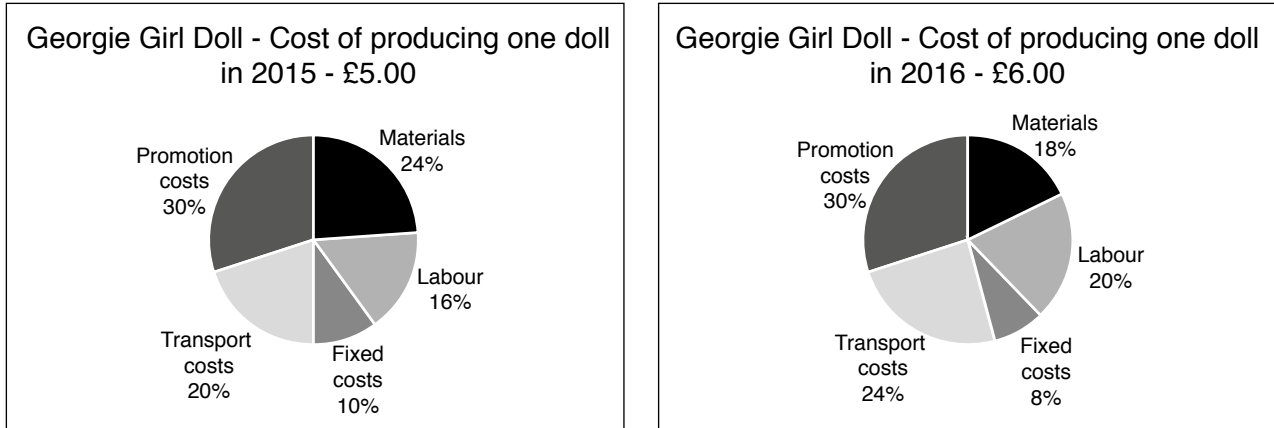
The Finance Department at GG Toys plc monitors costs, revenues and profits closely. Information about its best-selling doll for 2015 and 2016, Georgie Girl, a character in a successful children's film, is given in Fig. 2. The doll is produced in China.

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Sales and production of the Georgie Girl doll grew by 120% in 2016 when a second Georgie Girl film was released. Production was moved to a newly-constructed building on the site of the Chinese factory making it possible to increase the scale of production to meet the demand.

The pie charts in Fig. 2 show the costs of producing one Georgie Girl doll in each of the years 2015 and 2016.

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**Fig. 2 Pie charts showing the cost of producing one Georgie Girl doll in 2015 and 2016**

## Section 6 The business environment – some issues

In early 2017 the Financial Director of GG Toys plc, Sundeep Chatterjee, brought some issues to the attention of the Board of Directors. He said that these could affect the success of the business in the next two or three years. The main points that he raised were:

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- In 2016, the Chinese government devalued its currency, the yuan (¥). Sundeep said that there might be an overall fall from £1 = 10¥ at the start of 2016 to £1 = 12¥ by the end of 2018.
- In 2016 the value of the pound sterling (£) fell against other currencies including the euro (€). Sundeep forecast that value of the pound would be £1 = 1.1€, changing from its current value of £1 = €1.2.
- Inflation is forecast to rise in the UK in 2018 when it is expected to be 3%. Sundeep thinks this might also cause a rise in the UK interest rate.
- Newspaper reports have raised environmental concerns about businesses that manufacture products in China and sell them in the UK. Sundeep believes this could become a problem for GG Toys plc.

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## Section 7 Sales and Net Profit Figures for GG Toys plc 2014 – 2016

Sales for GG Toys plc fell by 8% per year during the period 2014 – 2016.

Fig. 3 shows the net profit figures for GG Toys plc for the period 2014 – 2016.

Year	Net Profit £s millions
2014	620
2015	472
2016	320

**Fig. 3 Net profit figures, GG Toys plc, 2014 – 2016**

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## Section 8 GG Toys plc – Development Plan, 2017 – 2022

In 2016, Isobel Liu was appointed as the new Chief Executive of GG Toys plc and was told by the Board of Directors to turn around the declining performance of the company. She produced a Development Plan covering the period 2017 – 2022. Isobel presented the plan to the Board of Directors of GG Toys plc in January 2017. The key points of the plan are given below:

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- To reduce the costs of production of the toys.
- The range of products sold to be reduced. GG Toys plc will focus on the increased production and sales of our best-selling toys.
- Production will continue at the factory in China.
- Online selling will be developed as a priority. Online selling is very competitive but it should lead to a reduction in the prices at which our toys retail. Suitable warehouse premises on the Colliery Chase industrial park in Bowton will be used as a depot where orders will be received, parcelled and posted out. After considering buying a warehouse using retained profits, it has been decided to lease a warehouse. The purchase of machinery used in the warehouse, including robots, will be financed using a bank loan.
- The warehouse will be automated and robots will be used. When an order is received, the robot will pick up the shelf on which the item is stored and deliver it to a packer before returning the shelf to its position. It is estimated that this will reduce the amount of time for sending out an order by one hour.

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