UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/33**

Paper 3 **May/June 2011**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **all** questions.
Section B
Answer **one** question.
The businesses described in this question paper are entirely fictitious.
You are advised to spend 40 minutes on Section B.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages and **2** blank pages.

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Forest Product Company (FPC)

FPC is a public limited company. The business owns forests in several low-income developing countries. The main operations of FPC are:

- Wood-cutting: cutting down mature hardwood trees and selling the wood cut from them
- Furniture making: making wooden furniture.

Wood-cutting

The wood-cutting division of the business earns 80% of FPC's total revenue. Many thousands of trees are cut each year. These are transported by trucks and ships to large sawmills, where the trees are split and cut into wood of all sizes. 85% of total output is sold to businesses in 35 different countries. It is used for furniture, house construction and boat building.

Furniture-making

15% of all FPC wood is supplied to the company's furniture-making division which operates two factories. These produce traditional styles of furniture. The furniture is sold through independent 'low price' retailers in several countries. Sales volume of these products has fallen in the last two years. Consumers are showing increased interest in modern imported furniture made from a variety of materials, not just wood. Imports have become cheaper due to lower tariffs. FPC does not promote its own furniture ranges – it depends on the retailers to do this.

Environmental problem

FPC's mission statement is: 'Managing the world's forests carefully for a sustainable future – for all of us'. FPC's commitment to this statement is being challenged by pressure groups opposed to the expansion of FPC's operations in the Lotus forest. The company bought this huge forest as part of its takeover of Far East Forest Company in 2010. It is now clear that FPC's directors had been attracted by the low price for this takeover and they had not undertaken sufficient in-depth research into the operations of the Far East Forest Company. The Lotus forest is located within an area of outstanding natural beauty which has just been given National Park status. This means that existing agreements with the Government to cut trees will not be renewed when they end in 3 years' time. FPC has decided to beat this deadline by accelerating its tree-cutting programme and constructing a new access road through several small villages.

Pressure groups are now campaigning for consumers to stop buying FPC products.

The Chief Executive Officer of FPC has stated that: 'The trees in this forest are very old and large. Increased tree cutting from the Lotus forest will have a much more significant impact on sales turnover than costs over the next year. I forecast that company sales from wood will rise by 15% and that our company's gross profit margin will rise to 72%. Overhead costs, including depreciation on new equipment, should only increase by 5%'.

Organisational structure

The hierarchical structure of the Operations Department of FPC is shown in Appendix B. The new Chief Executive Officer, appointed last year, considers that this is not a suitable structure. She thinks it does not give staff the opportunity for personal development and is inappropriate for the company, especially if it continues to expand into other countries and, possibly, other product markets.

Full capacity at sawmills

Table 1 indicates that the company is operating its sawmills at nearly full capacity. This helps to make FPC one of the lowest cost suppliers of wood in a competitive market. However, the safety record is poor at several sawmills and essential maintenance on heavy electric saws and trucks used to move wood is often hurriedly done.

Table 1: Annual output and capacity at FPC's sawmills

	Total annual capacity (000s tonnes)	Actual annual output (000s tonnes)
2008	45	42
2009	46	44.5
2010	48	47

To increase capacity and allow the sawmills to deal with the expected increase in the number of trees cut down in the Lotus forest, a new sawmill is planned. The Operations Director said: 'If we can get this operating within 4 months we will avoid having to sell whole trees that have not been sawn. Critical path analysis should guarantee that this time limit is met'. The Operations Director has prepared the network analysis shown in Appendix A.

Strategic options

The directors of FPC aim to satisfy shareholders' demands for higher dividends by increasing FPC's profits. They are discussing two options for the company.

Option 1: Expansion of furniture making by a merger with, or takeover of, a large Asian furniture manufacturer

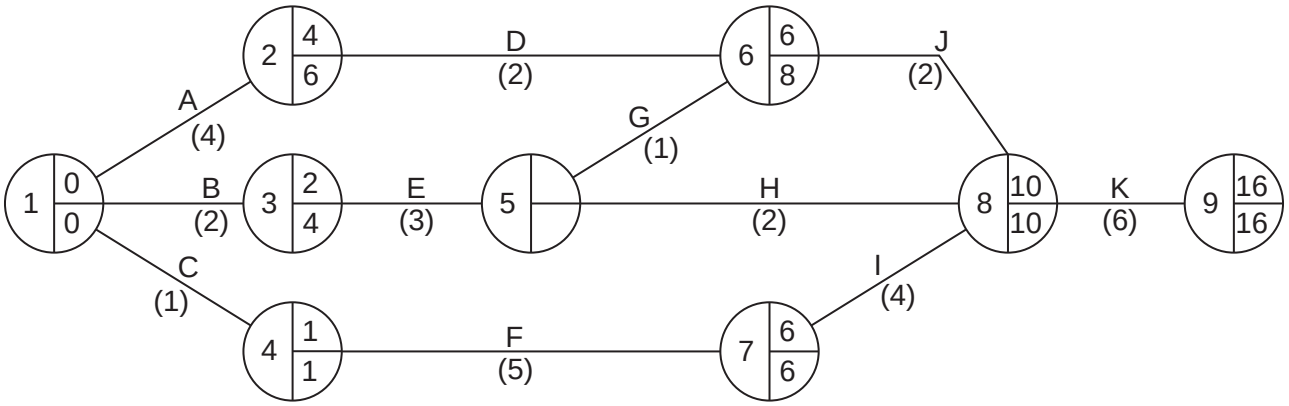
At a recent Board meeting the Marketing Director said: 'This form of growth could allow us to integrate with an under-performing furniture manufacturer at relatively low capital cost. It would increase our furniture-making capacity and offer economies of scale, allowing FPC to compete with cheaper imports. Depending on the exchange rates, we could even consider selling to retailers in European and American markets. I am sure that the same marketing strategy that we use now would appeal to consumers in those markets'.

Option 2: Exploitation of other primary products

The Finance Director suggested at the same meeting that: 'We are largely a supplier of primary products. Why not use our experience and business contacts to exploit other primary products? Much of our land that was once covered with trees contains important minerals and metals. If we developed large opencast mines we could extract these commodities and diversify our product range'.

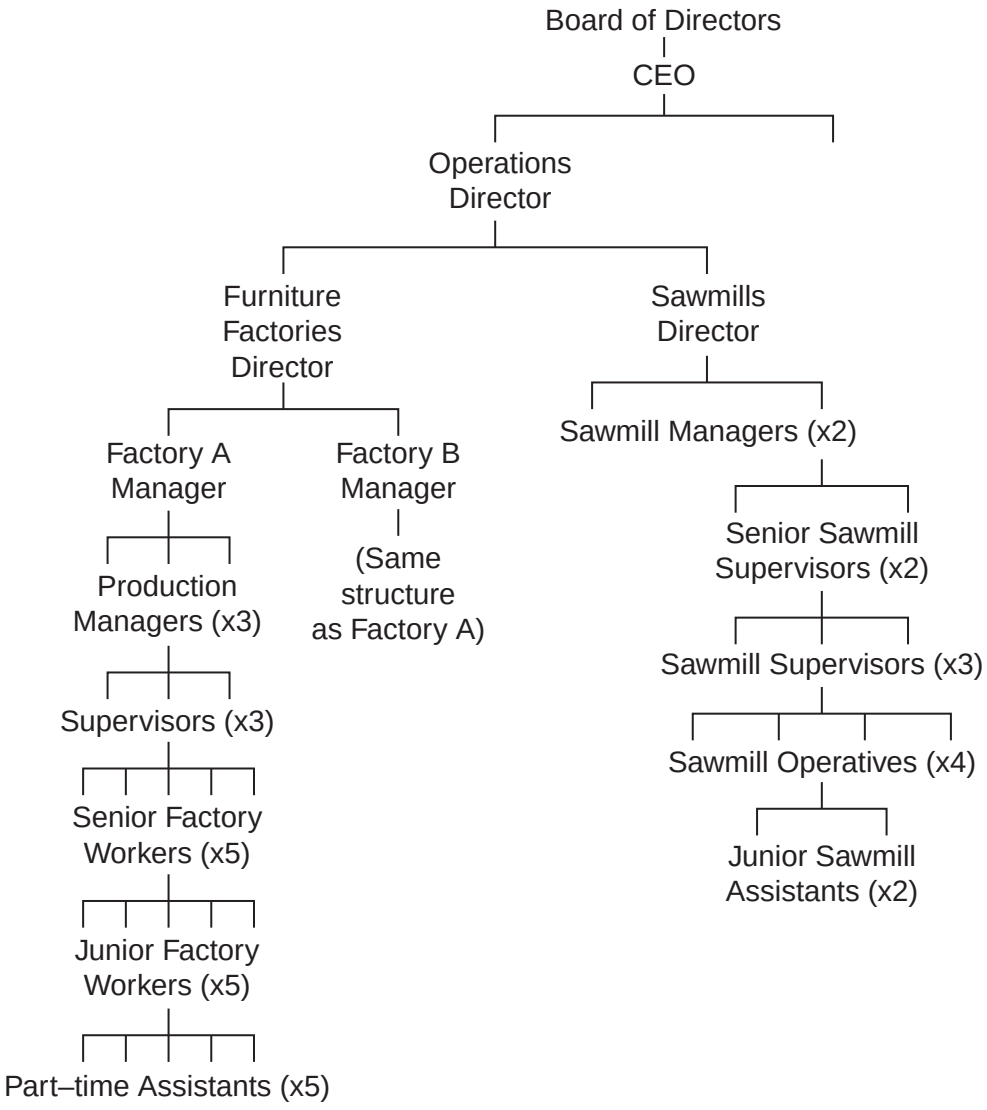
The Chief Executive Officer disagreed: 'We have always allowed villagers back on to their land once all the trees have been cut. We do not have the experience or the capital equipment needed for mining. The changes needed to our staff training, workforce plan and operations would be very substantial. We should focus on trees and wood-cutting – this is much less risky'.

Appendix A: Network analysis for the new sawmill



( ) numbers in brackets = duration in weeks

Appendix B: Organisational chart for the Operations Department in FPC



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Appendix C: Income Statement (Profit & Loss Account) for FPC
Year ending 31 May 2011 ($m)

Revenue (sales)	50 (80% from sawmills; 20% from furniture sales)
Cost of sales (cost of goods sold)	15
Gross profit	35
Overhead costs	28
Profit before tax (net profit)	7

Section A

Answer **all** questions in this section.

1 Analyse the advantages and disadvantages for FPC of operating sawmills at nearly full capacity. [10]

2 **(a)** Draw up a forecasted Income Statement (Profit & Loss Account) for FPC for the 12 months ending 31 May 2012 based on the actual Income Statement shown in Appendix C.

Assume that:
- the impact on sales and profit margins is based on the information and estimates made on lines 33–35
- there are no other changes. [8]

(b) Comment briefly on the usefulness of a forecasted Income Statement to the directors of FPC. [4]

(c) Discuss, using your results from **(a)** and other information, whether FPC should respond to pressure group threats and stop extracting wood from the Lotus forest. [14]

3 **(a)** Refer to Appendix A.

(i) Identify the earliest start time (EST) and latest finish time (LFT) at node 5. [2]

(ii) State the length of the critical path. [1]

(iii) Calculate the total float on Activity J. [3]

(b) To what extent will the use of critical path analysis ensure a successful completion of the new sawmill? [8]

4 Refer to Appendix B and lines 36–41. Evaluate the most important changes that you consider should be made to improve the organisational structure of FPC's Operations Department. [14]

5 Assess the potential impact of increasing globalisation on the marketing strategy for FPC furniture. [16]

Section B

Answer **one** question in this section.

6 Evaluate the importance of both SWOT and PEST analysis to FPC's directors as they analyse the two strategic options. [20]

7 FPC's directors aim to increase profits. Recommend to FPC's directors which one of the two strategic options they should choose for the company, assessing the potential risks and rewards of both options. [20]

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