UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/32**

Paper 3 **October/November 2011**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

7821193163

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.
You are advised to spend 40 minutes on Section B.
The businesses described in this question paper are entirely fictitious.

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 **5** printed pages and **3** blank pages.

© UCLES 2011

Atlantic Steel Company (ASC)

The current situation

ASC is a public limited company which produces steel. It was privatised in November 2005 after 35 years of state ownership and control. Since privatisation, the profit-focused objectives of the shareholders and the directors they elected have led to many changes within the business. Table 1 summarises some of these changes following privatisation.

Table 1: ASC data comparing 2005 with 2010

	2005 (before privatisation)	2010 (after privatisation)
Annual labour productivity	600 tonnes per worker	940 tonnes per worker
Number of steel works	20	14
Total staff employed	44 000	32 000
% of staff belonging to a Trade Union	78	48
Average ASC wage as % of industry average wage	89	105
% of total output exported	23	45
Average price of ASC steel as % of average industry price	82	98

The company accountant is forecasting profit before tax (net profit) for the 2011 financial year of $35m. In 2005 ASC lost $45m despite substantial Government subsidies.

Long-term plan and corporate objectives

One of the first actions made by the new directors was to establish a five year plan for ASC. This contained the long-term objectives of the business and details of the main strategic decisions needed to achieve them.

Long-term corporate objectives are:

- Achieve 2.5% global market share in steel by 2011
- Become one of the five most efficient steel producers in the world.

Strategic decisions include:

- Close least efficient steel works
- Acquire, through takeovers, smaller competitors with good productivity records.

Fluctuating global demand for steel

Steel is used in many industries such as construction, car manufacturing and shipbuilding. There are seasonal changes in demand for steel in some countries due to poor weather conditions affecting output in major industries. The ASC marketing department uses the moving average method and other techniques to forecast these seasonal demand changes. These forecasts are used by both the human resources and the operations management departments.

Cyclical demand changes are more difficult to predict. Global demand for steel increased steadily during the 10 years to 2008. In that year demand rose by 11% to 1.22 billion tonnes. However, the global recession cut demand for steel by 15% in 2009 and demand fell again in 2010. ASC, like all of the world's steel makers, has been greatly affected by this cyclical demand.

The Chief Executive Officer reported to directors at a Board meeting in 2010 that: 'Our long-term strategic plan may have to be radically changed as a result of this recession. This will have great effects on the objectives and strategies used by all departments of the business.'

The directors of ASC took very rapid action as soon as it became clear that the fall in demand for steel would be serious and prolonged:

- Two steel works were closed, reducing the overheads of the business
- Some staff in steel works kept open were either offered redundancy or re-employment on flexible employment contracts
- Steel stocks were increased to prevent output being reduced at some works
- Investment in fully automated computer controlled equipment was increased to make ASC's steel more competitive.

Further closures seem inevitable

Even if global steel demand increases, the directors of ASC are determined to continue closing low productivity works that have spare capacity. The directors are going to decide which of two works to close at the next Board meeting. They think that closing one of these works, both of which are located in the same country, will increase demand for the output of the other. The Operations Director has produced the data contained in Table 2.

Table 2: Comparative data for two steel works

	Steel works A	Steel works B
Contribution towards ASC's profit in 2010	($5m)	($7m)
Average age of equipment	15 years	11 years
Number of workers employed	5500	7000
Unemployment rate in the region	12%	18%
Output of carbon pollution in 2010	55 000 tonnes	43 000 tonnes
Distance from major customer	55 kilometres	120 kilometres
Size of Government grant offered to keep plant open	$5m total grant to be paid in 2012	$1.4m per year for 6 years

Global recession – it's not all bad

The global economic downturn led to the closure of several major steel works owned by ASC's competitors. This reduced competition in some countries. ASC was able to take over a small maker of specialist steel, forced into liquidation, at a price the directors believed was below net asset value. Substantial increases in unemployment in many countries have made recruitment for most businesses much easier than when the world economy was booming.

Variance analysis reveals problems

The Finance Director is undertaking variance analysis for most of ASC's steel works. By investigating the major adverse variances, he believes that the recession is not the only factor causing them. The data for the Newtown steel works is contained in Appendix A.

Financial efficiency

Despite the decisions taken by the company, the period of falling steel demand has worsened the cash flow position of the business. The changes in the financial efficiency of the business in 2011 can be assessed by ratios calculated from the data given in Appendix B. These can then be compared with the results for 2010 in Appendix C.

Appendix A: Budget and actual data for Newtown steel works, 2011

	Budget for year ending 31 October 2011	Actual data for year ending 31 October 2011
Revenue	$306m	$272m
Material costs	$125m	$118m
Labour costs	$113m	$106m
Allocated overhead costs	$40m	$41m
Profit	$28m	$7m

Appendix B: Accounting data for ASC, $m

	As at 30 September 2011
Trade receivables (debtors)	300
Inventories (stocks)	195
Trade payables (creditors)	250
Annual revenue (sales turnover) (for year ending)	2500
Cost of sales (cost of goods sold) (for year ending)	1750

Appendix C: Financial efficiency ratios, 2010

	As at 30 September 2010
Inventory (stock) turnover	15
Days sales in trade receivables (debtor days)	33

© UCLES 2011

Section A

Answer **all** questions in this section.

1 Analyse the opportunities and threats of a global recession for ASC. [10]

2 **(a)** **(i)** Using data in Appendix A, calculate the variances for the Newtown steel works. [6]

(ii) Explain possible reasons for any **two** of these variances. [6]

(b) Discuss the impact of ASC's privatisation on the company's stakeholders, using data in Table 1 and other relevant information. [16]

3 **(a)** Using data in Appendix B, analyse the financial efficiency of the business by calculating **two** appropriate ratios. [6]

(b) Evaluate any **two** ways in which the business might improve its financial efficiency. [8]

4 The ASC marketing department uses a number of sales forecasting techniques including the moving average method. Evaluate the usefulness of sales forecasting to ASC. [12]

5 ASC has taken measures to reduce the impact of the global fall in steel demand (lines 38-43). Evaluate the likely effects of these measures on human resource management **and** operations management at ASC. [16]

Section B

Answer **one** question in this section.

6 Evaluate the usefulness of long-term planning and corporate objectives to ASC, which operates in a constantly changing business environment. [20]

7 Using Table 2 and other information, recommend to the Board of Directors of ASC which of the two steel works should be closed. Justify your strategic choice. [20]

© UCLES 2011

BLANK PAGE

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2011