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GCSE BUSINESS STUDIES

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

CASE STUDY

Duration: 1 hour 30 minutes



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BOWTON MOUNTAIN FESTIVAL 2017

Section 1 – Introduction

The Bowton Mountain Festival (referred to as ‘The Festival’) takes place in August each year in the town of Bowton. The Festival is organised by Bowton Mountain Festival Limited (BMF Ltd). Bowton is in the county of Moorshire. The county has long been associated with outdoor pursuit activities; its mountains, moorlands, lakes and rivers being a playground for climbers and walkers and for sailing and canoeing enthusiasts. The Festival weekend lasts three days, from Friday morning until the closing concert on Sunday evening. There are lectures, exhibitions, concerts and parties, films, guided walks, fell running and mountain bike races during the festival weekend. Last year there was criticism in the town about the number of people who were drunk and badly behaved on the streets after the nightly parties. 5
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In 2016, over 10 000 people attended The Festival. 20% of the visitors came from other European countries. The number of visitors from some European Union (EU) countries is influenced to an extent by changes in the exchange rate of the pound sterling (£) against the euro (€). 60% of the people attending The Festival were under 30 years of age. 70% of all festival goers had incomes above the EU average. 15

The theme of The Festival this year is ‘Enjoying but protecting the environment and its people.’ The protection of the environment is one of the core values of BMF Ltd and it has taken every opportunity in previous festivals to highlight the importance of this.

Spirit of Adventure is an independent shop in Bowton. It sells a range of expensive outdoor pursuits gear – clothing and specialist equipment such as climbing ropes and canoes. It is the only retailer of outdoor pursuits gear in the town. 20

Section 2 – Review of the Bowton economy and its prospects

The bullet points in Fig. 1 are extracts taken from the summary of the Development Report for Bowton published by the Economic Development Unit of Bowton Council in 2016.

- Council expenditure needs to be cut. This follows central government rules. 25
- Incomes in Bowton remain below the national average and unemployment is above the national average – this puts pressure on Council spending on welfare benefits.
- The UK economy has experienced economic growth in each of the past five years and average incomes have risen. The economies of some European countries have not experienced the same levels of economic growth. 30
- For much of this period many European countries have also seen less growth in incomes than the UK.
- In the UK, as in the rest of Europe, income growth has been uneven. The gap between the rich and the poor has widened. Many lower-paid workers have benefited little from the economic growth as a result of the increase in part-time work and zero-hours contracts. The Bowton economy has increased its output and unemployment has been reduced by a large increase in the number of zero-hours contracts. 35
- The exchange rate of the pound has fluctuated against the euro (€) and may affect some businesses and events such as the Bowton Mountain Festival.
- The UK government is struggling to achieve its planned reduction in the government deficit and there is some pressure to increase income tax. 40
- An increase in the number of hotels in Bowton has reduced accommodation prices and helped to increase tourism in the area.
- Our local economist forecasts that interest rates in the UK will rise.

Fig. 1 Extract from the Development Report, Economic Development Unit, Bowton Council – 2016 45

Section 3 – Financing the Bowton Mountain Festival

- BMF Ltd was formed by a group of outdoor pursuits enthusiasts 20 years ago. Each invested £5,000 in shares in the company. The value of the shares has grown since it was founded. Some of the shareholders, however, are not entirely pleased with the performance of the company. 50
- Following a passionate debate about how The Festival would help the town, and about the costs of running the festival, such as policing, Bowton Council decided to give a grant of £30 000 to BMF Ltd towards the costs of The Festival in 2017. BMF Ltd had asked for this grant so that it could advertise The Festival more than in previous years. BMF Ltd expects to raise £50 000 in sponsorship from businesses that manufacture or retail outdoor pursuits clothing and equipment, and from adventure holiday companies. 55
- Other revenue is raised from the sale of tickets. Visitors can buy a weekend pass which gives access to all venues and events. The price for the weekend pass in 2017 will be £60. Alternatively, visitors can buy tickets for individual events. The price of these tickets depends on the popularity of the event. BMF Ltd expects that more visitors from the UK will attend The Festival in 2017 compared with 2016. 60

Section 4 – Festival costs – 2016 and 2017

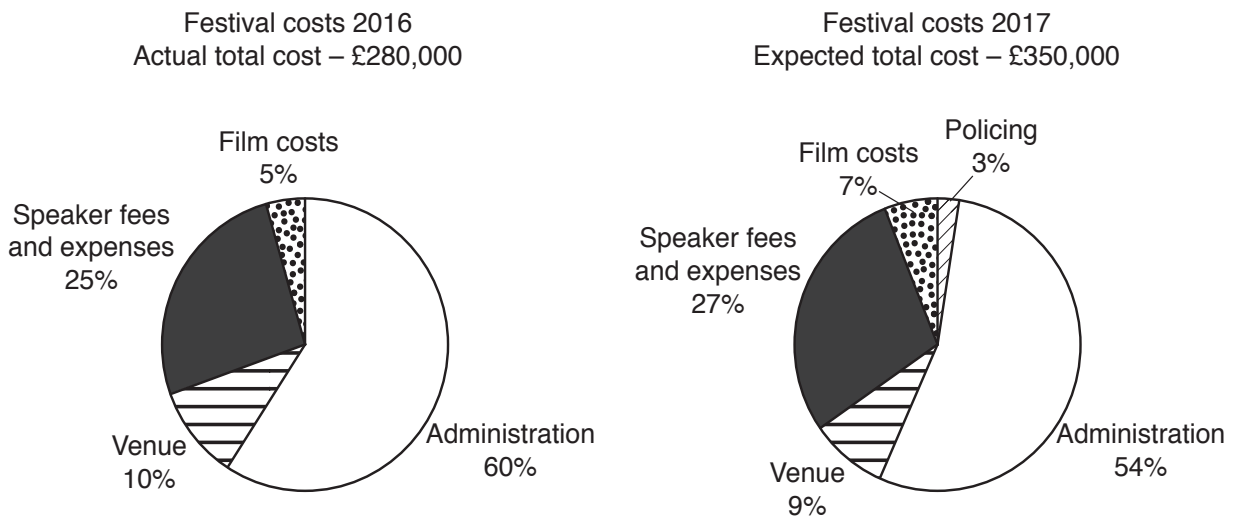


Fig. 2 Cost to BMF Ltd of the Bowton Mountain Festival (actual costs for 2016 and expected costs for 2017)

65

Section 5 – Festival T-shirts

BMF Ltd sells a 'Festival T-shirt' each year. A new design is created for each Festival. The T-shirts have become very popular and are seen as something of a 'collectors item' among outdoor pursuits enthusiasts. BMF Ltd believes that the T-shirts help to support a positive image for The Festival. The T-shirts are sold through The Festival website before, during and after the festival weekend and at event venues during the festival. 70

In previous years, the T-shirts were supplied by a company in China. The Chinese supplier uses flow production to make standard T-shirts in very large quantities. Some of these T-shirts are then printed with The Festival design, using batch production. The Chinese supplier has quoted the prices to manufacture the T-shirts for this year. The quotation is shown in Fig. 3 below: 75

Total of T-shirts ordered	Cost per T-shirt
5 000	£5
10 000	£4
15 000	£2

Fig. 3 Prices quoted by the Chinese supplier for the supply of Festival T-shirts for 2017

There were reports earlier in 2016 in a UK newspaper that criticised the Chinese supplier for the way it treated its employees. The reports claimed that wages paid were very low and there were concerns over health and safety practices in its factories. There were also suggestions in the report that the supplier used too many non-renewable resources. The Chinese supplier said that the claims were untrue. It has invited reporters to visit any of its factories without notice. It believes that suppliers in other countries are encouraging these kinds of reports because they find it difficult to compete. Prior to this year BMF Ltd had never been made aware of any of these concerns. BMF Ltd has enjoyed a mutually beneficial partnership with its Chinese supplier, which has always been very reliable. However, some business analysts are suggesting that some Chinese firms are becoming too big and may begin to experience diseconomies of large scale production rather than economies of large scale production. 80 85

BMF Ltd decided to obtain quotes for T-shirts from a smaller, UK supplier. The UK supplier claims to have excellent quality control systems and a good record for delivering orders on time. The UK supplier has quoted prices to manufacture and print T-shirts for the 2017 Festival. The quotation is shown in Fig. 4 below: 90

Total of T-shirts ordered	Cost per T-shirt
5 000	£6
10 000	£5
15 000	£3

Fig. 4 Prices quoted by the UK supplier for the supply of Festival T-shirts for 2017

In previous years, BMF Ltd has financed the purchasing and selling costs of the T-shirts using an overdraft. This year it is considering either asking its supplier for trade credit or taking out a bank loan. 95

Fig. 5 shows the **expected** sales and costs of the Festival T-shirts in 2017, and the prices that will be charged, if BMF Ltd continue to use the Chinese supplier.

- Total sales of T-shirts will be 5000.
- BMF Ltd will buy the T-shirts for £5 each.
- The T-shirts will be sold at £10 each in June, July and August. T-shirts will be sold at £5 each in September.
- Sales of T-shirts in each month will be: June – 600, July – 1400 and August – 2800, September – 200.

100

Fig. 5 Expected sales and costs of BMF Ltd T-shirts and prices charged in 2017

BMF Ltd has produced a cash flow forecast related to the sales of The Festival T-shirts. This is shown in Fig. 6 below. The cash flow forecast is based on the assumption that T-shirts will be made in China.

105

	June	July	August	September
	£	£	£	£
Balance brought forward	0	(20 900)	(11 200)	10 700
INCOME				
Sale of T-shirts	6 000	14 000	28 000	1 000
TOTAL	6 000	(6 900)	16 800	11 700
EXPENDITURE				
Purchase of T-shirts	25 000	0	0	0
Retail and distribution costs	1 200	2 800	4 000	400
Administration	700	1 500	2 100	300
TOTAL EXPENDITURE	26 900	4 300	6 100	700
Balance carried forward	(20 900)	(11 200)	10 700	11 000

Fig. 6 Cash flow forecast for the sale of T-shirts related to the 2017 Festival

Section 6 – The Festival Field

Bowton Park is located behind Bowton Town Hall. Each year, during the festival weekend, the Park becomes The Festival Field. There will be five food stalls including two temporary restaurants housed in marquees. There will be six bars. Twenty two specialist retailers of outdoor pursuits products and seven adventure holiday firms will rent stalls on the field to sell their goods and services to festival visitors. Several of these retailers are large national chains. They are able to sell their outdoor pursuits gear at cheaper prices through their shops compared to the prices that Spirit of Adventure charges. During the Festival weekend, the national chain retailers offer additional discounts on goods sold from their stalls on The Festival Field. Spirit of Adventure buys in additional stock to sell during the festival weekend.

110

115

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