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GCSE**

A293/01/CS

BUSINESS STUDIES

**Production, Finance and the External
Business Environment**

CASE STUDY

FRIDAY 5 JUNE 2015: Morning

**DURATION: 1 hour 30 minutes
plus your additional time allowance**

MODIFIED ENLARGED

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Holden plc and Bromley Furnishings

SECTION 1 – Introduction

Holden plc manufactures cushions and bean bags. The head office of Holden plc is in Bowton in the United Kingdom (UK) and production is currently based in China.

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Bromley Furnishings is a shop which sells home furnishings in Bowton.

SECTION 2 – Background to Holden plc

The business was started in 1982 by Tom Holden. At that time the business was located in his home town of Bowton.

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Since 1982 the business has grown and now operates as a public limited company (plc). Tom's brothers, Martin and David, and his sister, Agnes, are now major shareholders and each holds a managerial role within the company. Their roles are shown in Fig. 1.

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FIG. 1

NAME	ROLE
Tom Holden	Managing Director
Martin Holden	Production Director
David Holden	Finance Director
Agnes Holden	Marketing Director

In 2008 Tom decided to move production to China to take advantage of lower labour costs. The business

had to make many of its employees in Bowton redundant.	20
Holden plc uses batch production to manufacture the cushions. The cushion cover material is first cut to size, then it is sewn into the cushion shape and packed with the cushion filling. It is then returned to the seamstresses for the final sewing. Holden plc employs different types of specialist worker including cutters, seamstresses, packers, maintenance workers and cleaners. Most of these are local Chinese workers. Some key workers from finance and human resources also moved when production was relocated to China.	25 30
There are different segments within the cushions market, each defined by the income of the consumers. Within each segment, consumers demand variety so that they can choose cushions which are to their taste. The cushions which Holden plc sells are mainly mid-price range, with retail prices varying from £15 up to £88 per cushion. Holden plc exhibits at cushion and bean bag trade exhibitions held in Europe and the United States. At these exhibitions it gains orders from retailers. The retailers it sells to are mainly department stores and home decoration specialist chain stores. Holden plc also sells to some small- scale retailers by advertising to them on its website. By manufacturing the cushions, Holden plc adds value to the materials used. The directors of Holden plc know that the quality of the cushions is important, particularly for those customers who buy the higher- priced cushions. Consumers who buy these higher- priced products are more likely to shop around for exactly what they want than those consumers who buy the cheaper cushions.	35 40 45 50

The market for cushions and the market for bean bags have become increasingly competitive in recent years as new businesses from around the world, particularly in developing countries, have entered the markets. The competition has increased the pressure on cushion manufacturers in the UK to keep production costs to a minimum. Some manufacturers in the UK have called for import taxes to be increased on cushions imported from outside the European Union (EU). They say that this competition can be unfair. The UK government believes that competition generally benefits the consumer and has rejected these calls.

SECTION 3 – Production costs at Holden plc

Fig. 2 shows the total costs of making one Hip-Hop Bean Bag which Holden plc sells to retailers at £18. In 2013–2014 sales of Hip-Hop Bean Bags were 80 000 units.

FIG. 2

Filling	£4.00
Fabric cost	£4.00
Make-up cost*	£3.00
Expenses**	£4.00

*Make-up is the term used for sewing the cushion cover.

**Expenses include all factory, administration, marketing and transport costs.

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SECTION 4 – Possible location change for Holden plc

Martin Holden, the Production Director, has been investigating the possibility of moving production back to Bowton. He has found that fabric costs per cushion are likely to be lower in Bowton than in China due to less wastage. Hourly wage rates in China are less than those in the UK but Holden plc has found that the productivity of the Chinese workers is lower than that of the workers it employed in the UK before the move to China. Chinese sewing machine workers are slower and less accurate than UK workers. Also, wage rates in China have started to increase. The cost of buying fabrics on the world market would not be affected by a switch in production back to Bowton.

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Martin has produced Fig. 3 to compare the costs of producing the Sobek, one of the cushions which Holden plc makes in China, with the estimated costs of producing the same cushion in Bowton.

FIG. 3

**Total cost of producing
one Sobek cushion in
China – £20.00**



**Estimated total cost of producing
one Sobek cushion in
Bowton – £19.50**



SECTION 5 – Relocation issues for Holden plc

David Holden, as Financial Director, has been looking at the financial costs of moving production back to the UK.

Holden plc would need a suitable factory. It could rent an existing, suitable factory in Bowton which is currently vacant. Alternatively, Holden plc could build a new factory. David has produced some figures comparing the costs of renting a factory and financing the building of a new factory, as well as other related costs. Fig. 4 shows these costs on an annual basis over a five year period. The factory would cost £1.6 million to build. Besides the cost of the factory, David knows that Holden plc would have to pay other costs, such as the machinery to be used in the factory, which would be £1 million to buy.

FIG. 4

RENTING AN EXISTING FACTORY	COST
Annual rental	£68,000
Estimated maintenance cost	£ 5,000
Uniform business rates	£ 6,000

BUILDING A NEW FACTORY	COST
Annual mortgage payments	£80,000
Estimated maintenance cost	£ 3,000
Uniform business rates	£ 4,000

Martin Holden, as Production Director, has looked at possible sites in Bowton. Bowton Council wants to encourage firms to locate in Bowton. It is considering 115 reducing the areas designated as 'green belt'. If the Council goes ahead with its plans, a site which David considers to be ideal would become available. The Council, however, has had representations from local resident groups about the plans to reduce the extent 120 of the 'green belt'.

SECTION 6 – Kapok fibres and Holden plc

Holden plc currently uses latex-filled cushion pads. The world price of latex has risen and consequently Martin and Agnes Holden have been researching the 125 use of kapok fibre as an alternative cushion pad filler. They are aware that some competitors are already using kapok which is considered to be a sustainable and renewable resource. Martin and Agnes have been investigating the possibility of getting supplies 130 from Sierra Leone in West Africa which is one of the poorest countries in the world. Many of the farmers who produce kapok are FairTrade producers. Agnes is very keen to buy from FairTrade producers, though Martin is less enthusiastic about this and believes 135 that they should also consider non-FairTrade producers. Martin and Agnes have suggested to the other directors that, even though the cost of kapok is higher than the cost of latex, Holden plc should produce some of its cushions using kapok fibre 140 rather than latex.

SECTION 7 – Prospects for the town of Bowton

Since 2008 when Holden plc moved its production of cushions to China, Bowton has experienced problems of unemployment and business closures. A recent 145

article in The Bowton Times considers how Bowton has been affected by the recent economic recession.

FIG. 5 – Extract from The Bowton Times

“At last there are some good signs for the Bowton economy. During the period from 2008 to the end of 2013 unemployment rose by 6 000; incomes fell by an average of 7%; there were 42 business closures; and only 15 business start-ups. In 2014 the Bowton economy has experienced slow economic growth. Some jobs have been created. However, most of these were low paid, part-time jobs and some businesses are still laying-off workers. The Economic Unit of Bowton Council is now forecasting better growth and employment figures for 2015. The trend for businesses to relocate abroad has slowed and there has been some inward investment and more is expected. One example is Holden plc, the cushion manufacturer. After moving production to China in 2008, its directors are now considering moving production back to Bowton. This would initially create 30 new jobs, mainly for skilled sewing-machine workers. Bowton Council is considering whether or not to give grants to businesses which locate in the Bowton area. Some of the councillors say that because of government spending cuts, the council cannot afford to give grants. Others believe that giving such grants will be self-financing.

A further boost to the local economy is that interest rates are predicted to stay low which will also help businesses in Bowton.”

SECTION 8 – Bromley Furnishings

Bromley Furnishings is a shop owned by a sole proprietor, Sunil Narine. The shop sells a range of furnishings including curtains, curtain rails, cushions and ornaments. Sunil buys the cushions that he sells from Holden plc. 150

On a number of measures the period from January to September 2014 has been a poor time for Bromley Furnishings. The increase in sales which Sunil had expected to take place between January and September 2014 did not occur. Sunil does, however, still expect a slight increase in sales in the last few months of 2014. September to December each year is a period when sales usually rise as people look to get their homes ready for the Christmas period. Sunil is now looking to 2015. He is planning a sale in the new year and he has drawn up a cash flow forecast for the first three months of 2015 (as shown in Fig. 6). 155 160 165

FIG. 6 – Cash flow forecast – January to March 2015

	January	February	March
OPENING BALANCE Brought Forward	1 000	2 000	500
INCOME			
Sales	14 500	12 500	11 500
TOTAL INCOME	15 500	14 500	12 000
EXPENSES			
Wages	8 000	8 000	8 000
Stock	4 000	4 500	4 500
Insurance	400	400	400
Advertising	600	600	600
Other expenses	500	500	500
TOTAL EXPENSES	13 500	14 000	14 000
CLOSING BALANCE Carried Forward	2 000	500	(2 000)

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