

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS
ADVANCED GCE**

2877

BUSINESS STUDIES

Further Operations Management

TUESDAY 16 JUNE 2009: Afternoon

DURATION: 1 hour 30 minutes

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

Candidates answer on the Answer Booklet

OCR SUPPLIED MATERIALS:

8 page Answer Booklet

OTHER MATERIALS REQUIRED:

Calculators may be used

READ INSTRUCTIONS OVERLEAF

INSTRUCTIONS TO CANDIDATES

- **Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.**
- **Use black ink. Pencil may be used for graphs and diagrams only.**
- **Read each question carefully and make sure that you know what you have to do before starting your answer.**
- **Answer ALL the questions.**
- **If you use additional sheets of paper, fasten the sheets to the Answer Booklet.**

INFORMATION FOR CANDIDATES

- **The number of marks is given in brackets [] at the end of each question or part question.**
- **The total number of marks for this paper is 60.**
- **You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.**

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PERFECT FINISH AND SOFA WORLD (PFSW)

Perfect Finish was founded in 1999 by Gary Moore, (the Managing Director), Martin Jackson, (the Marketing Director) and Graham Mills, (the Finance Director). The business began when the three partners, who first met at university, went to New York where they saw elegantly designed furniture made from solid wood such as maple, oak and walnut. Believing there was a market in the UK, they aimed their products at wealthy young professionals who wanted better quality than the self-assembly flat pack furniture available from other businesses.

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They opened their first store on the Edgware Road in North London in October 1999. The business was very successful and they opened more stores around London and in other major UK cities. They also expanded the types of furniture they sold, forming business links with small to medium sized furniture manufacturers from all over the world. By 2008, Perfect Finish owned 25 stores and turnover had grown to £20 million.

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Perfect Finish's own in-house team designs most of the furniture. Perfect Finish then works with the manufacturers to turn these designs into products using solid wood and traditional furniture construction techniques. Some manufacturers specialise in particular types of furniture, e.g. chairs or tables. Other manufacturers make their furniture using one type of wood.

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However, business is very dependent on a highly active property market. When people move house they also often buy new furniture. If interest rates rise, then fewer houses are bought and sold which means that furniture sales can go down.

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In 2005, one of the UK's major furniture businesses was in deep financial trouble and it decided to sell off some of its assets. This presented Perfect Finish with the opportunity to expand, as one of these assets was a firm called Sofa World. Sofa World had built an excellent brand name, manufacturing and selling its products in its 32 UK stores. These were based in prime high street locations, especially in London. Moore, Jackson and Mills believed a merger between Perfect Finish and Sofa World would make excellent business sense because:

- both businesses specialised in hand-crafted furniture;
- most of Sofa World's customers came from the same market segment as Perfect Finish's;
- the products would complement each other with no overlap.

When the merger was completed PFSW was formed. The two businesses continued to operate separate retail outlets. Moore, Jackson and Mills decided to leave Fiona Hepworth, Sofa World's Managing Director at the time of the merger, in charge of that side of the business. The partners felt there were opportunities for significant cost saving through economies of scale in stock control, marketing and other areas of the business.

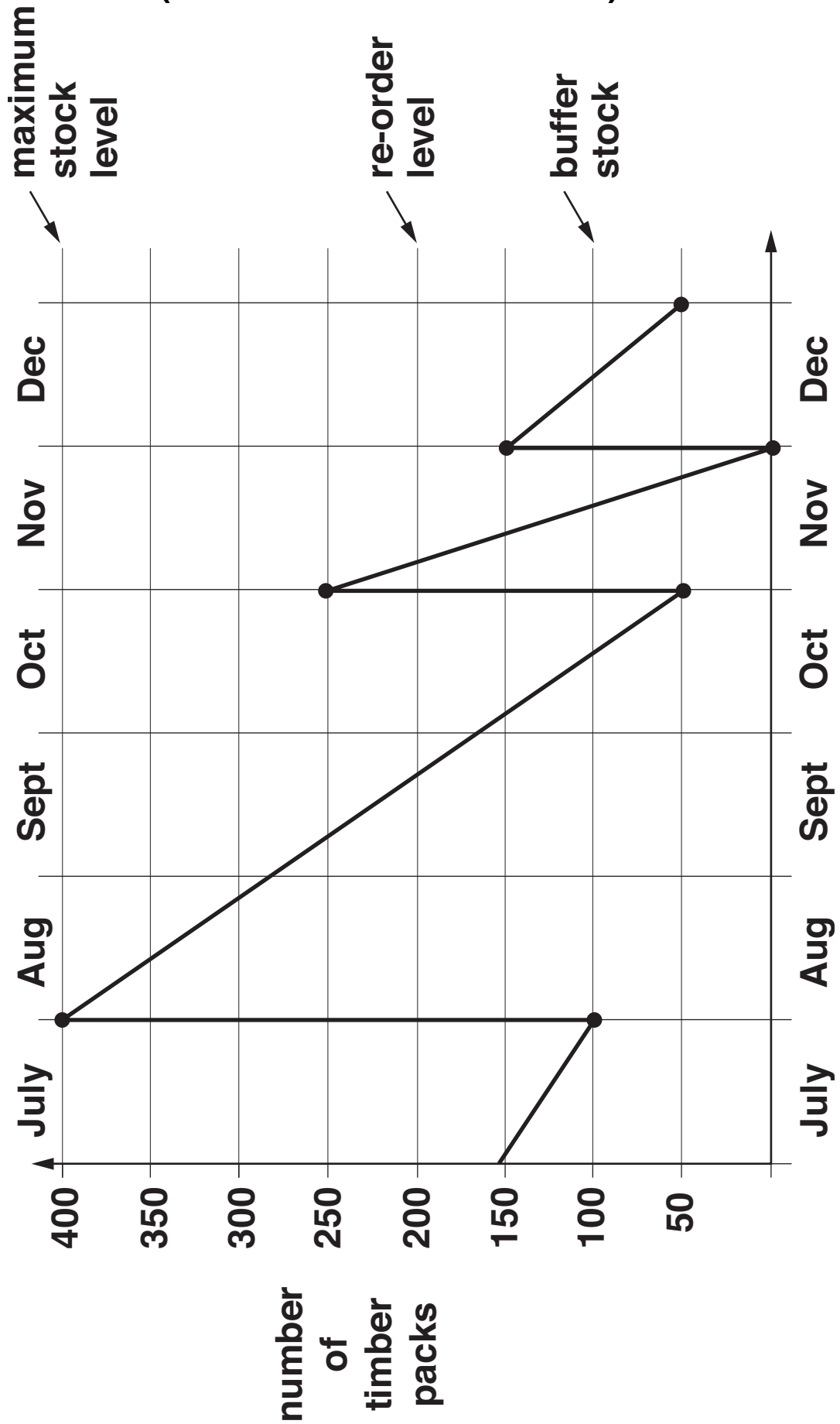
Sofa World's products are designed by its own team of experienced designers based at the business's Head Office in West Sussex. Using wood imported from the USA, Canada and Sweden, the sofas are then manufactured in its own nearby workshop. Here workers are divided into small teams. At any time they might be working on one of the three distinct ranges of Sofa World's products, as described in Table 1.

TABLE 1 – CHOICES OF SOFAS AT SOFA WORLD

The Ultimate Choice	Customers can choose the height, depth and width of their sofas and select from a wide range of fabrics, leather and cushion fillings.
The Flexible Choice	The ranges of sizes available are restricted and there is a limited choice of four fabrics.
The Simple Choice	Sofas are designed and ready made by Sofa World. These products are the cheapest in the Sofa World range and are available in all of the company's stores.

Timber supplies for Sofa World come from an importer based in Liverpool docks. However, in recent months Fiona has been rather concerned about the unreliable delivery of timber packs from its supplier. The stock usage chart for the months July to December 2008 is shown in Fig. 1. 70

**FIG. 1 STOCK USAGE AT SOFA WORLD
(JULY – DECEMBER 2008)**



Graham is concerned about the impact of rapidly rising costs on profit margins at Sofa World. A meeting of the partners is due in the next month and Graham is keen to discuss the possibility of switching production of some sofas to Perfect Finish's current overseas furniture suppliers. These overseas suppliers, mostly based in the USA and Eastern Europe, have always supplied Perfect Finish with the wide range of high quality furniture the business requires.

- 1 (a) Analyse TWO benefits to PFSW of having its own in-house design teams. [6]
- (b) Analyse TWO ways that value analysis might be useful to PFSW. [6]
- (c) Evaluate the extent to which economies of scale might have arisen from the merger of Perfect Finish and Sofa World. [16]
- 2 (a) Refer to Fig. 1. Calculate the average monthly usage of packs of timber at Sofa World for the six month period shown. [4]
- (b) Discuss the factors that could influence the levels of stock held by PFSW. [10]
- (c) Evaluate the implications to PFSW of 'switching production of some sofas to Perfect Finish's current overseas furniture suppliers' (lines 78-79). [16]

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