



Rewarding Learning

ADVANCED

General Certificate of Education

2022

Business Studies

Assessment Unit A2 2

assessing

The Competitive Business Environment



ABU21

[ABU21]

THURSDAY 9 JUNE, MORNING

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.

You are strongly recommended to spend 10 minutes reading all of the information sources **and** questions before writing your answers.

You may use a calculator.

Answer **all** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions **4, 5** and **6**.

Quantitative skills will be assessed in Questions **1, 2** and **6**.

Any workings should be clearly shown since marks may be awarded for partially correct solutions.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question in allocating the available examination time.

The following passage was written in 2020.

Study the information in the case study and answer the questions that follow.

CDE Limited (CDE)

CDE has its headquarters in Cookstown, Co Tyrone, and is the world's largest manufacturing plant dedicated to the design, manufacture and commission of processing plant and equipment used in the sand and aggregates, mining, construction, demolition, waste recycling and environmental market sectors worldwide.

From a start-up in 1992 CDE has grown into a company employing more than 500 people in eight regions across the world. It has manufactured and sold over 2000 individually designed processing plant projects to 70 different countries. CDE works with its clients in niche markets across strategic regions spanning the globe including Latin America, Middle East, Africa, North America, Australasia, Europe and Russia.

CDE's Managing Director at an award gala stated, "We are delighted to have won the Deloitte Best Managed Company status for the tenth year. This award reinforces our motivated team working together in a high level of excellence and ethics to deliver innovative projects and achieve our strategic goals, always keeping the CDE values at the core of what we do. We put our people first so consequently they put our customers first, making each of our projects unique, and this allows our business to be recognised at prestigious awards such as this."

CDE's management team has adapted a range of values throughout the company and examples of its approach to ethical behaviour include:

Table 1: Ethical Behaviour

Value	Examples of ethical behaviour
Do it right	<ul style="list-style-type: none">• Putting the customer first• Demonstrating commitment to engineering excellence• Continually developing world-beating products, service and processes through innovation, initiative and intuition• Exceeding expectations
Do it safe	<ul style="list-style-type: none">• Keeping ourselves and others safe• Following health and safety rules• Protecting our environment

Financial excerpts from CDE's financial statements are given below.

Table 2: Financial Data

Excerpt	31 December 2019	% Increase/ Decrease	31 December 2018
	£ 000s	%	£ 000s
Sales receipts	69,714	5.99%	65,776
Cost of sales	54,197	11.62%	48,554
Gross profit	15,517	-9.9%	17,222
Profit after tax and interest	832	-79.47%	4,053

For the year ended 31 December 2018, CDE's international sales (exports) accounted for £50 million, 76% of its total sales receipts.

CDE's Strategic Report (2018) states that its Directors believe that the future key business risks and uncertainties are:

- controlling raw material costs; and
- maintaining sales levels.

CDE's growth strategy is driven forward by its focus on innovative product development and international exports sales. Invest NI provided £1.3 million towards the construction of a factory extension for research activities. The European Regional Development Funds Investment for Growth and Jobs Programme provided £3 million to CDE to undertake a significant R&D project that develops mining solutions for export markets.

Invest NI assisted CDE in hosting a trade fair in its new factory, showing potential customers from Kenya, South Africa and Ghana the processing plant and equipment products on offer.

Invest NI has also held workshops for CDE to develop and refresh its knowledge of exporting processes and update its understanding of best practice in exporting. Invest NI also offers CDE advice and guidance of the skills needed for selling outside Northern Ireland, to explore new markets and to develop exporting strategies.

CDE's growth and expansion strategy to increase profitability was to move to international markets and away from its saturated domestic market. Pressure from CDE's shareholders to increase its profits and dividend pay-outs strengthened the need for increased global trade. International markets was a welcome addition to CDE's domestic market as it reduces risk and gives CDE greater stability. However, CDE is now facing major threats to its profits on a variety of fronts.

Table 3: Threats to global trade

Threat	Details
Cost of raw materials	Volatile and unstable global markets have widespread implications for manufacturing organisations in the UK, including CDE. Rising energy costs, unexpected increases in their raw material price levels and disappearing supply chains make it difficult for manufacturers like CDE to remain profitable. It is now up to manufacturers like CDE to either absorb these increased material costs which will affect their profits, or pass price increases along to their global customers possibly losing those customers and sales.
Covid-19 pandemic	<p>The Covid-19 pandemic is having an unprecedented impact on UK businesses, with world economies effectively frozen and economic activity shrinking. During April 2020 the UK's economic activity shrunk by 20%, the highest ever recorded.</p> <p>Each countries government has enforced their own pandemic lockdown which has increased their unemployment levels even more when its furlough scheme ends. There is a real concern that there will be a massive wave of redundancies in some industries with businesses not reopening. High unemployment levels reduces consumers' disposable income exacerbating existing businesses problems, especially little or no demand for their products.</p>

Brexit

British business are sounding the alarm over the scale of potential tariffs and duties being imposed on its product exports to the EU's 28 countries. The introduction of tariffs and duties will increase the price of exported products to its customers in the EU. It will also increase regulatory and administrative burdens including customs declarations and safety, and security declarations which attract additional costs to the exporting business.

CDE fears major decreases in future international sales due to the possible imposition of trade tariffs on its products which will ultimately inflate prices to its customers. CDE's customers will look to other markets for its products. CDE supports thousands of jobs in the UK with many more in the supply chain. The imposition of tariffs will undoubtedly damage many UK industry sectors. The UK government expects to see a negative impact of trade tariffs, especially on investment and job creation, and longer-term impacts on productivity, growth across industry and supply chains. The imposition of tariffs reduces consumer choice.

The UK government forecasts steady economic growth at 3%, inflation at 2% and unemployment at 4% for the years 2019 to 2022. These estimates are based on the proposition that the UK will obtain a positive free trade deal with America and will continue to make further free trade deals with EU countries.

The UK's main government policy objective for 2020 is to encourage steady and sustained economic growth through the use of government instruments such as monetary policy (interest rates) and fiscal policy (taxation and government spending).

The slowdown in growth in all the major developed economies, including the UK, confirms that just relying on monetary policies alone to stimulate consumer demand produces at best weak economic growth, while tax cuts have failed to trigger business investment.

The Bank of England has made two emergency interest rate cuts in March 2020 to reduce the economic impact of the coronavirus outbreak. It slashed bank interest rates from 0.75% to 0.25% and then to 0.1%, the lowest on record. There is speculation that the interest rates would fall to 0% as the economic outlook is considered “unusually uncertain”.

The UK government’s fiscal policy is to stimulate economic growth by increasing public spending and investment. The chancellor has outlined an infrastructure spend of £5.6 billion to include maintenance and upgrades of hospitals, schools and roads. Reduction in the VAT rate from 20% to 5% will aim to lower prices for consumers and encourage spending. To stimulate growth in the construction industry the government has increased the stamp duty threshold to £500,000 from £125,000 reducing the amount of duty payable, inviting increased house sales. The UK government has also created substantial funds for home owners to make their homes more energy efficient through the installation of insulation and new energy efficient boilers.

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Using the information provided and your own knowledge and understanding, answer all six questions. Show your workings as appropriate.

- 1** Explain the key business risks and uncertainties facing CDE. [6]

- 2** Analyse **two** possible outcomes of the EU imposing trade tariffs on CDE's customers. [9]

- 3** Evaluate the assistance available to CDE when trading globally. [15]

- 4** Evaluate the threats to CDE of trading globally. [20]

- 5** Evaluate CDE's ethics as a source of competitive advantage. [20]

- 6** Evaluate the instruments used by the UK government to achieve its policy objectives of steady and sustained economic growth. [20]

THIS IS THE END OF THE QUESTION PAPER

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