



ADVANCED GCE

BUSINESS STUDIES

Further Operations Management

2877

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

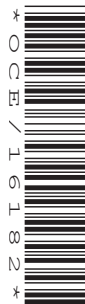
Other Materials Required:

- A calculator may be used

Friday 11 June 2010

Afternoon

Duration: 1 hour 30 minutes



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.
- Write your answers on the separate Answer Booklet provided.
- If you need extra sheets of paper, fasten these sheets securely to the Answer Booklet.
- Do **not** write in the bar codes.

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.
- This document consists of **4** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

The Island Pottery Ltd

The Island Pottery Limited (TIPL) was established in the late 1940s on the Isle of Wight. At the time there were very few factories producing decorated pottery and Alec Bannister and his wife Judy soon developed a market in the UK. Alec also recognised the potential for their small factory to become a tourist attraction on the island. Many holidaymakers, having watched the hand made pottery being produced, wanted to take home a reminder of their visit.

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Expansion continued, with demand growing for large sets of pottery mainly coming from local hotels, guesthouses and restaurants. The Bannister family found it relatively easy to recruit craftsmen and designers from Staffordshire where many of the traditional pottery businesses were closing down, or becoming more automated. In order to increase production, TIPL installed the most up to date equipment enabling them to manufacture larger batches of the more popular lines. Rather than relocate, the Bannisters decided to purchase an additional 10 hectares of land close to their existing site in order to expand their factory. In 1980 they opened a 250-seat restaurant and shop on the site.

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The business is now very different from when it was set up. Alec and Judy have retired and passed the business on to their daughter Amy, who is the Managing Director, and their son Max who is responsible for financial matters. Sixty staff are now employed by TIPL but most pottery orders are still based on batch production methods where the company can utilise the advantages of division of labour. Orders and new designs are processed in batches of 250 before a new batch is commenced. They are packed at TIPL and then delivered to customers by one of the local delivery companies who have developed an expertise in handling fragile products. TIPL pride themselves on their innovative and unique designs, which come from their 10 strong design team. Recently the design department has been updated with the latest computer aided design software. This will help the team to speed up the creation of new patterns and shapes for the pottery.

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There is still a healthy profit to be earned from hand made and hand-painted pottery. Visitors to the factory are encouraged to see all areas of production – throwing, casting, decorating, firing and glazing. This provides the visitors with the opportunity to appreciate the skills of the artists and craftsmen employed by TIPL.

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TIPL's reputation has been built on quality. Amy introduced a system of Total Quality Management into the factory several years ago. This was expensive to start with due to the training and quite time consuming due to the quality audits that were carried out. However she felt that it was worthwhile and she believed the benefits, particularly the closer contacts with suppliers and customers that she established, definitely outweighed the costs. However over the last year there has been a noticeable increase in the number of products returned to TIPL, which then have to be sold at a much reduced price in the shop. Whilst this is not a major issue at present, it is causing Amy increasing concern.

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Max is also worried about the rising levels of stock of both raw materials and finished goods. Clay comes from various suppliers in the UK, some of whom are more reliable than others, whilst specialist glazes and paints come from companies based in Italy. He feels the buffer stocks the business currently holds are too high and that this is having a detrimental effect on cash flow. He has been closely monitoring order patterns and lead times and is exploring the possibility of moving to a system of just-in-time manufacturing.

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Last year the representative of the well known TV chef, Jamie Ramsey, approached TIPL to produce his new range of dinner plates and bowls. These would be made in batches but hand painted. The plates and bowls will be sold in sets of six with TIPL responsible for designing and producing the new range. TIPL uses a system of standard costing and the standard and actual costings for the original order of 250 sets are shown in the table opposite.

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Table 1 – Costs for original order of 250 sets

	Standard cost £	Actual cost £
Design	500	500
Overheads at 1% of £600 000	6 000	6 000
Materials for plates and bowls	5 000	6 500
Painting and glazing materials	4 000	5 000
Labour cost	9 500	12 000
Total Cost	£25 000	£30 000

The product has proved to be so popular that TIPL has received a new order for 1500 sets, but with a slightly different design. Max estimates that the new design will cost the same as the original set but that overheads have risen by 10% since last year.

Answer **all** questions.

- 1 (a) Analyse **two** operational reasons why the Bannisters might have chosen to expand on their existing site rather than relocate elsewhere. [6]
- (b) Recommend whether TIPL should change to a system of just-in-time manufacturing. Justify your view. [16]
- (c) Discuss whether batch production is the most appropriate method for TIPL. [10]
- 2 (a) (i) On the basis of the **actual costs** for the original dinner service, and assuming overheads rise by 10%, (see Table 1) calculate the total standard cost for the new order of 1500 sets. [4]
- (ii) Analyse **two** operational reasons why the standard cost of producing the original order for the Jamie Ramsey dinner service was inaccurate. [6]
- (b) Evaluate methods TIPL might use to reduce the number of products returned. [16]

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