

Brookline Engineering Ltd (BEL)

Brookline Engineering Ltd (BEL) is the UK's largest manufacturer of traditional taxi cabs (taxis). Since the business was founded in 1901, more than 100000 taxis have been produced at its factory in Derby. Until 2015, it was the largest wholly British owned vehicle manufacturer, with an output of over 2200 vehicles per year.

The last five years have been a period of great uncertainty for the company. The global recession and the Eurozone debt crisis weakened confidence in the UK economy. This was especially true in London (where the company's market share was over 75%). The global recession led to it having operating losses in each of the financial years from 2010 to 2015, which ultimately led to BEL entering administration. At the start of 2016, and after the production facilities had been shut for a short time, the company was wound up. Its last full set of accounts are shown in **Appendices 1 & 2**. The principal assets were bought later in 2016 for £12m by Chennai Engines Inc. (CEI), an Indian-based engineering firm. BEL is now a wholly owned subsidiary of CEI.

The 2015 accounts reflected sales of 1092 new taxis in London (BEL's largest market), an increase of 4% and sales of 424 new taxis in the rest of the UK, a fall of nearly 30%. The poor UK trading performance was affected by taxi owners' low confidence to commit themselves to the purchase of a new taxi during a sustained period of economic weakness. The high levels of BEL product reliability and the availability of a licensed repair service also added to taxi owners' willingness to delay the purchase of a new vehicle, with a typical on-the-road price of £36000. On a more positive note for BEL, new regulations about air quality in London prevent the use of taxis which are more than 15 years old. There is evidence that since 2015 this legislation has led to a significant increase in the demand for new taxis in London. There are also rumours that similar legislation may be introduced across the rest of the UK in the future.

At its peak, BEL employed over 400 staff, the vast majority based in Derby. Some staff were employed in each of its 10 dealerships across the UK. The dealerships sell new taxis, as well as second-hand ones. BEL also has a network of independently owned service agents in the UK which provide a licensed repair and approved parts service. Now that the Derby factory has reopened it employs just under 200 staff, producing 10 taxis a day, five days a week.

The new owners are confident about the future of the business and have begun a three-year plan to restructure it. This involves a number of short-term expenses. The latest part of the business to begin the restructuring process is the 10 BEL dealerships. The proposal is to streamline this operation by reducing the number of dealerships to six. The four to be closed are in Coventry, Derby, Glasgow and Liverpool. This would mean that the remaining dealerships in London (North), London (South), Birmingham, Edinburgh, Leeds and Manchester would have to cover the whole of the UK.

The total cost of the streamlining of dealerships is estimated to be £1 million, to cover items such as redundancy payments, losses on the disposal of assets and penalties for cancelling lease agreements. All project decisions at BEL are assessed using quantitative methods, wherever possible, although qualitative consequences are also taken into account. Decisions are assessed over a six-year timeframe with a preferred minimum ARR of 20% and a maximum payback period of two years.

Given the continued weakness in the UK market, and based on strong export sales before 2015, CEI's owners want to focus BEL's future growth on overseas orders. Of the planned 2500 taxis being produced between September 2016 and August 2017, about 800 will be sold abroad to meet orders from Saudi Arabia and China. There are indications that further large orders are possible, with negotiations already underway with buyers from Macau, India, Belarus and the Middle East. Uncertainty caused by political unrest is a concern in some of these markets, but the directors of BEL see huge potential for growth over the next five years.

CEI first became involved with BEL in 2010 when it entered a joint venture to supply around 20%, by value, of BEL's components, manufactured in India. The dependency on parts from CEI emphasised the importance of effective supply chain management, with respect to both quality and the prompt delivery of the components. The two firms worked closely together to improve quality and reliability of components. This led to four BEL employees being based in CEI's Chennai factory to oversee the quality and manufacturing processes. There are still six Kaizen projects taking place jointly across the two sites, with just over 40 workers in each of the Derby and Chennai factories communicating via the internet and video conferencing.

In response to targets set by the parent company, BEL's directors have set three new corporate objectives to be achieved by the end of 2018:

- to increase output to 3500 taxis per year
- export sales volumes to be 60% of total sales
- 40% of components, by value, to be produced in India.

BEL's directors have only just announced these to the staff and know that they will have a significant impact on the operation of the business. The directors have already had some positive and negative feedback from both managers and production line workers.

As well as the decline in UK sales of taxis, BEL's profits have been hit by an increase in the level of warranty claims received during the year ended August 2016. This has impacted on net profit by an estimated £600 000. The increase in warranty claims can be linked to the recurrence of a problem with the production of radiators in the Derby factory. This has been an ongoing issue for a number of years, as shown by the failure rates reported by the quality control department at a recent meeting (see Table 1).

BEL quality control report – failure rates in the production process

Financial year	Radiators	Rear axle sub-assembly	Transmission
2015–2016	12%	0.2%	0.9%
2014–2015	15%	0.2%	1.3%
2013–2014	9%	0.2%	1.0%
2012–2013	10%	0.5%	0.6%
2011–2012	8%	1.8%	1.1%
2010–2011	8%	1.1%	0.8%

Table 1

“You can see the scale of the problem from this data,” began Svetlana Kapelyukh, BEL's Head of Quality Control. “I have given you data on two other components made in our Derby factory to provide a benchmark”.

“The training programme started in 2015 has had some effect,” replied Henry Howells, Production Director.

“Yes, but not very much,” answered Svetlana. “At the current rate, it will be another five years at least before failure rates on the radiators get anywhere close to being acceptable. I think we need to take a more drastic approach to solving this problem and learn some of the lessons from my visit to the Chennai factory this year.”

At the Chennai factory of CEI most components are produced in cells, by autonomous teams of multi-skilled workers. On the other hand, in the Derby factory of BEL, more traditional production methods are used. For example, the radiators are made by pairs of workers. Each pair makes the whole radiator from start to finish. The finished radiators then join the rest of the taxi components in the quality control department, before moving to the semi-automated production line where the taxis are assembled. 80

“There’s another issue to consider here Svetlana, and I think it’s also a cause of the quality problems,” argued Henry. “I’ve heard from Personnel that five or six of the longest serving staff making radiators are running the section like their own personal fiefdom. The younger staff are starting to complain about being bullied. There are also suggestions that some of the harassment is racial and the two women in the department say that much of the language used is inappropriate.” 85

“Isn’t it just your normal shopfloor banter you find in any industrial factory?”, replied Svetlana. “The girls should be used to it, working in a factory such as ours.” 90

“It’s the 21st century, not the 19th and as a director of this business, I have a legal and, might I add, moral responsibility to investigate these allegations seriously,” answered Henry angrily.

“Well, I hope you are careful,” said Svetlana. “The staff you are talking about are good workers and experienced. We can ill afford to lose them due to any unsubstantiated rumours.” 95

In the Personnel Department, any concerns about problems with the radiator workers are only part of a potentially much larger issue. BEL has recently introduced a set of company values as part of a programme, instigated by the parent company CEI, to increase responsibility and promote sustainable products which benefit shareholders and other groups of stakeholders (see Fig. 1). 100

BEL’s company values

<p><u>Product Values</u></p> <ul style="list-style-type: none"> • To provide a safe and secure environment for drivers and passengers which offers the best facilities, utility and comfort • To produce a taxi which is environmentally friendly with low emissions and from recyclable materials where possible • To provide a product which is fully integrated with other forms of public transport <p><u>Corporate Values</u></p> <ul style="list-style-type: none"> • Job security and family friendly policies for our workforce • Corporate responsibility supporting stakeholder communities, such as taxi drivers and customers, disabled people, older people and people travelling alone at night • Equal opportunities and social inclusion
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Fig. 1

BEL’s Personnel Director, Jessica Robson, is meeting with two trade union representatives of BEL’s production workers, who are not pleased to have found out about the new company values only when they were recently published.

“This is no way to run a responsible company,” argued Ibi Sekabo, the BEL senior shop steward. “All of your precious values are focused on the customer and ‘tree huggers’; what about the workforce who are vital to this company’s success?” 105

“What about job security and family friendly policies?” responded Jessica.

“If by ‘family friendly policies’ you mean the planned crèche which has still not happened, then they are just words,” replied Ibi. “And, as for job security, the plans for more components to be made in India surely contradict that assertion.”

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The other trade union representative, Danny Whitaker, interrupted. “Let’s also not forget that pay negotiations are approaching. Along with all the uncertainty and job losses in the last 12 months, our members have seen their pay frozen for a number of years and will not accept a further cut in their real living standards. We want to see wage increases of at least 5% this year and 7% next year, along with other changes to the pay structure to recognise length of service and responsibility.”

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“You know that is not on the table at the moment,” replied Jessica. “This meeting is supposed to be discussing the introduction of more Kaizen groups, as the six we already have are very successful and the Board of Directors would like to see them spread to the rest of the factory.”

“That’s something else that is hitting the pocket of some of our members,” argued Ibi. “They’re sat in those Kaizen meetings when they could be earning money. It’s all right for those workers on the production line, as they are paid an hourly rate. However, those doing more specialised jobs, such as making radiators, and being paid a piece rate, will seriously lose out. It is creating friction between workers, never mind between workers and management.”

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Before the pay freeze, BEL’s production workers were paid on a par with or above equivalent workers at the Japanese-owned car factory in Derby. However, since then, the pay differential has changed (see Table 2).

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Pay differentials between BEL and the Japanese-owned car factory

Financial year	BEL pay rates as a percentage of Japanese factory pay rates	
	Hourly paid workers	Piece rate workers
2015–2016	95%	92%
2014–2015	98%	95%
2013–2014	100%	102%
2012–2013	108%	115%
2011–2012	108%	113%

Table 2

“Another thing,” said Danny. “We have been informed that the deficit in the company’s pension scheme has increased by 10% to £4.5 million, and there are suggestions that the company’s contributions to employee pensions will be reduced. On the other hand, most managers had a 4.2% increase in their pay last year. In addition, the pay of the directors increased, in some cases, by as much as 10% in the last year alone. There are also lots of share options for directors and their pension scheme looks a whole lot healthier! You are sending out the wrong signals! The big boss is always saying how we are all in this together! Well, all I see are managers taking and workers giving.”

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BEL's Profit & Loss Account extract (year ended 31 August)

	2015		2014	
	£000s	£000s	£000s	£000s
Turnover	75 890		70 057	
Cost of sales	<u>67 332</u>		<u>67 893</u>	
Gross Profit		8 558		2 164
Expenses	<u>10 221</u>		<u>8 314</u>	
Operating Profit		-1 663		-6 150
Interest	<u>799</u>		<u>873</u>	
Profit before tax		-2 462		-7 023

Appendix 1**BEL's Balance Sheet extract (as at 31 August)**

	2015		2014	
	£000s	£000s	£000s	£000s
Fixed Assets				
Intangible assets	224		590	
Tangible assets	<u>27 911</u>		<u>28 110</u>	
Total Fixed Assets		28 135		28 700
Current Assets				
Stock	22 133		24 852	
Debtors	5 278		5 267	
Cash	<u>1 899</u>		<u>75</u>	
Total Current Assets		29 310		30 194
Creditors due within 12 months		<u>35 671</u>		<u>32 880</u>
Net Current Assets		-6 361		-2 686
Creditors due after 12 months		<u>6 258</u>		<u>5 561</u>
Net Assets Employed		<u>15 516</u>		<u>20 453</u>

Appendix 2

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