



Rewarding Learning

ADVANCED
General Certificate of Education
January 2011

Business Studies

Assessment Unit A2 2

assessing

The Changing Business Environment

[AT221]

MONDAY 31 JANUARY, AFTERNOON



AT221

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

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

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed throughout the paper.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

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

Study the information and answer the question that follows.

Fresh Meats Ltd.

Source 1: Background information

Fresh Meats Ltd. is a family-owned meat processing business based in Omagh, Northern Ireland. The firm was established in 1985 and currently employs 200 staff. The plant has a processing capacity of 1200 cattle and 10 000 lambs per week. Recently there has been a decline in profits and this has resulted in some job losses at Fresh Meats Ltd.

Owners Peter and John Taylor, who plan to retire later this year, intend to sell the business. Other members of the existing management team have indicated that they may be interested in a management/employee buyout. Most of the staff have been with Fresh Meats Ltd. for many years and think that the business has a viable future, particularly in light of recent undertakings by national supermarket chains that they intend to source more produce locally. Managers are convinced that the meat processing sector is set for a return to growth, and that they have the know-how to make the business more efficient. They believe that a management/employee buyout will secure their jobs, benefit the local community and retain an important industry within the area.

Source 2: Falling profitability for processors

Up to 85 jobs at the Foyle Food Group are at risk after the company announced recently that it will end lamb processing at its Foyle Meats plant at Campsie, County Londonderry.

A spokesman for the Ulster Farmers' Union has said it is almost impossible for Northern Ireland lamb processors to make a profit. "This once again vindicates our concern that supermarkets are enjoying the vast majority of the profits in the food chain while their local suppliers are facing enormous challenges to break even. With excellent facilities and contracts to supply leading retailers, it should have been an ongoing success story, but instead we see falling production at farm level and job losses in food processing."

© BBC News at [bbc.co.uk http://www.bbc.co.uk/news/10403790](http://www.bbc.co.uk/news/10403790)

Source 3: TESCO – Corporate Responsibility Statement

The following information is stated on the TESCO website:

We aim to buy and sell our products responsibly – so our customers know that everything they buy is produced under decent conditions, and everyone involved is treated fairly. We are committed to this not just because it is the right thing to do, but also because it is in our business interest. We know that if you treat people decently they perform better.

As a result of our efforts, a third of our suppliers have been with us for at least five years and we are seeking to increase this proportion. We want the right values in our supply chain, good animal welfare, and decent prices and conditions for suppliers. But we also need to provide good value products to our customers, many of whom are currently struggling to make ends meet.

© Tesco stores Ltd - adapted from www.tesco.com

Source 4: Opportunities in the European marketplace

European retailers and suppliers had the opportunity to see the quality, variety and innovation of local food and drink products at the recent ANUGA trade fair in Cologne, Germany. InvestNI was responsible for bringing around 20 Northern Ireland companies to this event.

ANUGA, the most important global food show, is the meeting place for decision-makers from the world of food and drink and provides an exchange of ideas at the highest level. The event attracts more than 6000 exhibitors from 95 countries and some 160 000 visitors. It therefore represents an ideal platform for local companies to show their products and to assess opportunities.

Maynard Mawhinney, InvestNI's Food Director, said: "Food processing is beating the downturn. In 2008, for instance, output rose by 8.9% and year-on-year employment by 2.9%." He describes the red meat sector as "a £700 million business which is steadily recovering its European markets".

Source: adapted from Ulster Business "Food for Thought", October 2009, p.46

Source 5: Management/Employee buyouts**Article 1 – KPMG survey**

Spectacular returns can be achieved through management/employee buyouts. Nevertheless, some will end in failure due to basic errors in judgement.

There has never been a better time to complete a management/employee buyout. That seems to be one of the implications of a recent survey by KPMG, which revealed that spending by private equity groups was likely to exceed £30 billion in 2007, surpassing the record £29.3 billion spent in 2006.

Source: adapted from "Ten steps to a successful buyout", www.growthbusiness.co.uk, May 15 2007

Article 2 – Management/Employee buyout activity in Northern Ireland

There are various options for company owners who want to exit their businesses, including selling to another business or to a private investor. Alternatively, owners may choose to sell their business to the existing managers/employees.

With an estimated average of 12 management/employee buyouts per week in some parts of the UK, Northern Ireland business owners may be missing out on a golden opportunity to exit their businesses.

According to the British Venture Capital Association (BVCA), over a three-year period, there were three management/employee buyouts completed in Northern Ireland. While the BVCA will not have picked up on all such activity, Northern Ireland is still bottom of the pile compared with Wales (9 deals), Scotland (23 deals) and the English regions, which averaged 48 deals per region, excluding the South East (287 deals).

Source: adapted from "Enterprise Equity Northern Ireland", www.eeni.com, MBO Focus, Feb 2006

Source 6: Moves to lift restrictions in lamb processing

In an effort to make it easier for businesses to trade, MEP Diane Dodds called on the Department for Agriculture and Rural Development (DARD) to free up restrictions to allow for the easier movement of livestock both within Northern Ireland and between Northern Ireland and the Irish Republic.

“This would allow Northern Ireland processors to import more livestock and retain their efficiencies in the Northern Ireland plants . . . Unless the returns to sheep and cattle farmers improve, there undoubtedly will have to be further rationalisation within the red meat processing sector in Northern Ireland,” she said.

Mrs Dodds also criticised new EU sheep tagging legislation. “This legislation not only adds additional bureaucracy to farmers but it also adds to the red tape and bureaucracy associated with livestock markets and meat plants.”

Adapted from News Letter, 25 June 2010 © 2011 Johnston Publishing

Source 7: Developments in the Northern Ireland economy**Article 1 – £350 million Omagh project**

Outline planning permission has been granted for a £350 million development on the outskirts of Omagh. The proposal includes a hotel, retail space, offices and health and leisure facilities, and has the potential to create up to 1000 jobs. Local representatives have welcomed the Planning Service decision saying it will help to boost the local economy and strengthen Omagh’s ambition to achieve city status in 2025.

Source: adapted from Belfasttelegraph.co.uk

Article 2 – Northern Ireland Affairs Committee to examine Corporation Tax rate

The Northern Ireland Affairs Committee at Westminster has announced that it will make an enquiry into the rate of Corporation Tax in Northern Ireland. Local politicians have pushed for a special reduction in the rate, as it is claimed that the lower rate in the Irish Republic drives investment south. The rate in the Republic of Ireland is currently 12.5% compared to 28% across the United Kingdom. The Chancellor has said he will consider a change to the Northern Ireland rate to encourage investment in the private sector.

© BBC News at [bbc.co.uk http://www.bbc.co.uk/news/uk-northern-ireland-10791157](http://www.bbc.co.uk/news/uk-northern-ireland-10791157)

Article 3 – Economic outlook

Despite the world recession, productivity in Northern Ireland has shown an upward trend in recent years and the economy continues to perform well against a range of economic indicators. Employment is at record levels, and latest figures show an annual economic growth rate above the UK average. Manufacturing output remains stable despite falling employment in the sector.

© Invest NI http://www.investni.com/index/locate/why_northern_ireland/outward_focused_economy

Source 8: Company information relating to Fresh Meats Ltd.

	2008	2009	2010
ROCE	20%	15%	5%
Current Ratio	2:1	1.5:1	1:1
Number of Employees	300	270	200
Absenteeism per Employee Per Year	4	8	12

Some staff feel that the current owners, Peter and John Taylor, have neglected the marketing side of the business and point to the company's absence from recent local and international trade fairs and exhibitions. This, they claim, along with recent job losses, has contributed to low levels of morale within the workforce.

Question 1

You are a consultant employed by those staff interested in a possible management/employee buyout of Fresh Meats Ltd. You have been asked to prepare a formal report entitled "The Proposed Management/Employee buyout of Fresh Meats Ltd."

The aim of the report is to examine the main issues surrounding the proposed management/employee buyout of Fresh Meats Ltd. You should analyse and evaluate the implications of the proposed management/employee buyout and draw conclusions as to whether the buyout should proceed.

Your report should be in an appropriate format and should include recommendations to those interested in the possible management/employee buyout of Fresh Meats Ltd.

(You **may** find it useful to address **some** of the following areas in your report: stakeholders, ethics, management of change, economic growth/recession, international marketing, innovation, sustainable development, business culture, employment, management/employee buyout and business confidence.)

[80]

THIS IS THE END OF THE QUESTION PAPER

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