

AQA
Business Studies
Units 2 and 3
Case Study for June 2005
Chinatown

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24 April 2005



Introduction

These resources are aimed at helping you to get to grips with the AQA Business Studies Case Study for the June 2005 exam for Units 2 and 3. It has been prepared in the form of a dialogue between Jack Wei and an interviewer. This approach allows us to take all of the issues that arise from the case and give Jack's point of view (as we see it anyway!). This dialogue is entirely fictional since Jack doesn't exist and neither does the interviewer.

There will be six interviews overall: one for each section of the case study. The titles of each interview will be

- ◇ The Beginning
- ◇ Great Leap forward
- ◇ From tertiary to secondary
- ◇ Making it happen
- ◇ **Running the business**
- ◇ Another step forward?

The interviews will be released at weekly intervals from now on with the first interview, the beginning, being released on 28 March 2005.

The case itself is the copyright of the AQA Board and can be downloaded free of charge from this address: <http://www.aqa.org.uk/qual/gceasa/qp-ms/AQA-BUS23-W-PM-Jun05.pdf>

We are using the case study as the basis of all of the interviews but are then adding our analysis of the case plus a wide variety of additional materials that we feel are appropriate for a full analysis of it.

Running the business

Interviewer: Thanks again Jack for agreeing to see me again; and I am so happy to meet you again, Ling.

Jack: My pleasure.

Ling: The pleasure's all mine. It's been a long time.

AQA Chinatown Case Study June 2005

Analysis by Duncan Williamson working in collaboration with Chris Sivewright

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Interviewer: Er, yes, er, two or three weeks I think.

So, Ling, I don't know what Jack has told you about our meetings but he's been taking me through the growth of his restaurant and your factory in some detail for articles I am writing for our local Chamber of Commerce Newsletter. Today I asked Jack if I could concentrate on your factory and here we are.

Ling: Lovely, I'm more than happy to work with you on this. Jack, I think I can handle this on my own, why don't you go and check in with your uncle Sam, he called just as I arrived at the office.

Jack: That's fine by me: OK with you Mr Business Writer!

Interviewer: Yes, I'm sure. Bye for now then.

Ling: Let me sit nearer to you: I'm afraid I don't like to be too far away from my colleagues.

Interviewer: (Wondering whether it's his lucky day or he's about to be bitten by a Wolf!).

OK!

Ling: I like people to know who they're dealing with when they're dealing with me so I'd like you to put a picture of me in your article.

Interviewer: OK, I'll see what I can do. Can you take me through the developments at the factory from around 1st February this year?

Ling: Sure. (Speaking very quickly and without a pause) By 1 February everything was working smoothly, and the supermarket deliveries were taking place on time and to the right standards. The Supermarket Buyer came along to congratulate us and to inspect the factory. She was delighted by the cleanliness and efficiency of what she saw.

Over the following weeks, the demand for our products steadily increased; and by May we were operating at close to maximum. We wanted to do some overtime but many of my staff, especially the assembly workers on the 7.00 am to 3.30 pm shift are all women with young children, need to finish promptly to pick up their children from school.

Sunday working is not an option, as double pay would cut severely into our already very tight profit margins.

I decided that I wanted my Production Engineer again to see if he could find a solution.

At the same time I was disappointed to see that too many staff were leaving and had to be replaced. This hit productivity and production levels hard. When I looked into

this problem further I found that those leaving came mainly from the batch production area.

I was surprised her because I thought that work on the assembly line was probably the most boring; and that's where I would expect most staffing problems. Of course, I talked to a few batch production workers and received a lot of complaints about the "bossy, petty, grumpy" manager of the section.

Just what I didn't need.

Interviewer: Can I stop you there for a second, Ling? I'm interested in your labour turnover problem. How did you spot this problem? Was it just because you noticed that every time you went round the factory there were new faces or did you collect labour turnover figures or was it that productivity was just too low?

Ling: Mmmm; and I thought I spoke quickly! Are you hot? Why not loosen your tie a little?

You're right, I noticed all three and then needed to ask questions. I am a quick learner and even though I didn't go to business college, I realised that I needed to be able to measure what was happening. Have you read Duncan Williamson's *Cost and Management Accounting* book?

Interviewer: No, should I?

Ling: Yes, it's really well written, he's got a chapter on 'people costs' and in there he shows us how to calculate labour turnover. He also highlights some of the problems that labour turnover can cause and that we were facing, too, so I decided I wanted my Engineer again!

Duncan says this:

$$\text{Labour turnover} = \frac{\text{number of leavers replaced}}{\text{average number of employees}} * 100$$

He also says this:

$$\text{Labour turnover} = \frac{\text{number leaving whether replaced or not}}{\text{average number of employees}} * 100$$

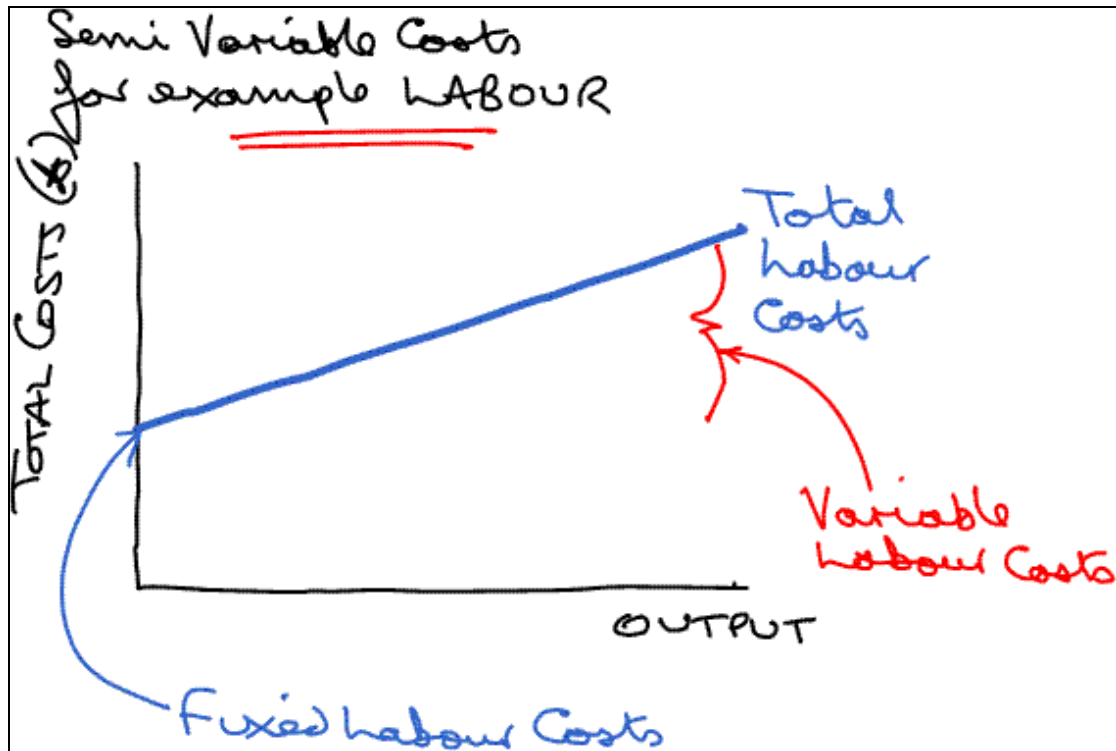
He's got another formula but these are the two we used.

One of the important things that Duncan highlighted for us was that even though everyone tells me that the costs of labour on the production lines are direct costs and therefore variable costs, that's not true. There are lots of people costs that are fixed even though they are direct. If ever you get the information for a factory or other business and put it all on a graph it'll look like a semi variable cost. Do you and your readers know about semi variable costs?

Interviewer: Yes, Jack and I discussed them last time ... or was in the time before ... erm, maybe it was the time before that. Anyway, I've got my notes and, oh, it wasn't semi variable costs.

Ling: You look really hot, take your sweater off.

Never mind, here, let me draw it for you quickly:



What happens is that even if we don't produce something, which does happen from time to time, we still pay our staff. This can happen when we need to clean and set up the machinery or when something needs to be repaired and we have to stop the production line. I could draw a slightly more advanced version but I think you get the idea.

Interviewer: Yes, you've made that very clear for me. It is warm in here isn't it? I think I will take my sweater off.

Ling: Good, that's better. Take a look at this list, too, that I copied from Duncan's book, page 127:

Make up of people costs

- remuneration
- direct fringe benefits
- statutory costs
- recruitment costs
- training costs
- relocation costs
- learning costs
- support / social costs
- personnel administration costs

Of course, they don't all apply to us (relocation costs for example) but once we'd looked into them we got a shock at how expensive this labour turnover really is.

I learned another valuable business lesson at this time too: don't interfere and keep communicating. After I talked to the shop floor people I went to talk to the Batch Production Manager; but the Works Manager found me first and he was very angry.

He said, "What did I think I was doing unsettling his staff and undermining his authority?"

Well, in the Chinese horoscope I am a Tigress and my first thought was that I was not going to be attacked in my own factory. I'm sorry to say that we had a blazing row, though fortunately we didn't get too personal. We met again the following day, when they had both calmed down and I gave him a small gift as an apology.

Interviewer: Sorry, what was the lesson you learned: how would you summarise that for my readers?

Ling: I understood that I should have discussed the problem with my manager. After all, I pay him to do that and I didn't show him trust and respect. I never thought that he was working on the problem. I didn't ask him either ... big business lesson number one, talk, talk, talk.

I then found out that the Assembly Manager held half hour quality improvement sessions every Thursday: she ran these meetings with eight volunteer assembly staff. She was clearly very proud of the sessions and I am ashamed to say, lesson number two, that I didn't know about these really valuable meetings.

Interviewer: What's lesson number two, sorry?

Ling: I see, I need to work on you some more! Lesson number two is to listen, listen, listen. I didn't know about the meetings because I wasn't listening or watching what was going on anywhere apart from the production areas and despatch.

My Assembly Manager just assumed that I couldn't be bothered to go along.

I found out that the Works Manager knew about the sessions but hadn't gone along either and neither did he pass the message on to me or anyone else.

One really important thing I found out was that it seemed that the Assembly Manager was looking into encouraging more group working by rearranging the assembly line into production cells. I was impressed with the ideas they were working on; but a bit concerned about their possible impact on productivity. I needed to know more.

Interviewer: Did you change your communications strategy as a result of everything you were learning now?

Ling: Yes! It was difficult at first because the Works Manager was really still angry with me and he was difficult at first but eventually I broke him down!

We made small changes to the organisational hierarchy and they agreed that we should hold a meeting every Friday: the section managers, the Works Manager and me. That meeting was scheduled to last as long as an hour or more as necessary.

Interviewer: The something French happened didn't it?

Ling: Oui! More might have emerged from this if it had not been for a phone call that same day from Carrefour, the French supermarket giant. Carrefour had found out about the 'excellent' meals being produced by *Wei Foods Ltd*, and wanted to talk about a substantial order for its French and Italian stores. A figure of "over a million units per week" was mentioned. The Carrefour head buyer asked to visit the Northampton factory almost immediately and then said they'd like discussions to begin.

The buyer warned that they would insist on a factory in Northern France or, failing that, close to the Channel Tunnel. Carrefour did not want to be dependent on supplies coming down the M1 and round the M25 they said.

Well, I'm sorry but he might be a buyer for a very large organisation but I didn't take too kindly to being told that I needed to operate in France. It's taken me years to master my English and now he wants me to work *les miracles en France!* *Zut alors!* I will work with them on that issue.

After all, if there is a problem getting our produce down the M1 and round the M25, I see that as my problem and I will solve it. I know I am a small fish in their large pond but I will negotiate from that position. My current supermarket customer never suggested for a second how I should organise my working life: we work on the basis of mutual respect. We signed a contract that sets out what I have to do and so far I am doing it.

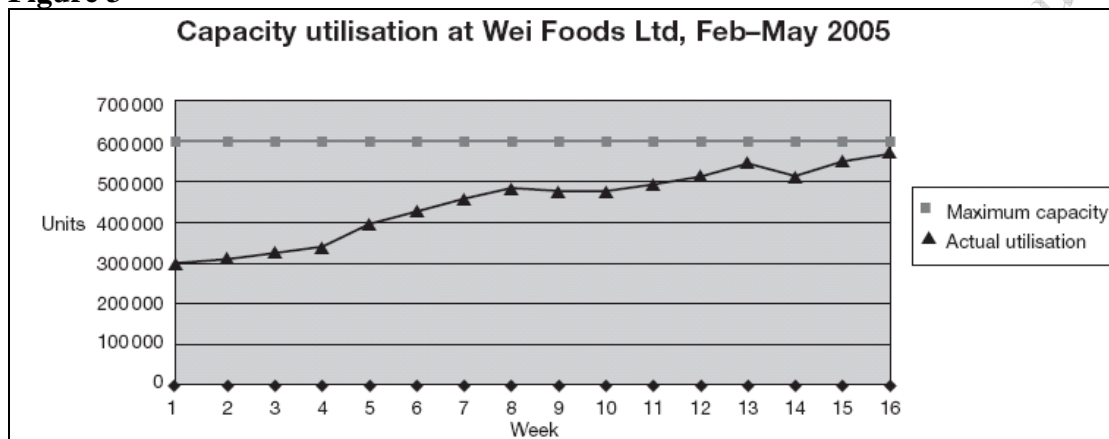
Interviewer: You're a very tough young lady!

Ling: I can melt at times!

Interviewer: Is the central heating on? It's stifling in here. Finally, what about your capacity utilisation: how's that settling down now that you are fairly well established now?

Ling: Our accountant produces lots of tables and charts and here's one I can let you have a look at:

Figure 3

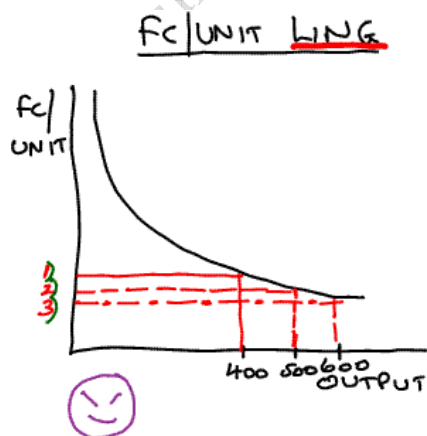


I am really happy: our capacity is 600,000 units and we are very nearly operating at that level and you can see that we are only four months old. How we'll manage any French contract is another issue!

Interviewer: Another shift, perhaps?

Ling: The nearer we get to our capacity levels the better we can leverage our fixed costs ...

Interviewer: Ah, Jack and I talked about that last time ... here's look:



Ling: Jack's only an artist in food isn't he! He's right though and that helps us with our costs and our profit levels. Still, I couldn't take on another factory just now but I would like to diversify into another customer before too long.

Jack: Hello again! I finished with uncle Sam and thought I'd come and see how you're getting on.

Ling: Jack, I am doing well with this young man! (Turning to our intrepid interviewer) Would you like some Chinese tea and what about that photograph? Here's one you could use ...

Interviewer: Yes please! (Looking at Ling's photograph)



Are you sure?