BUS.AL26 Retrenchment, Redundancy and Business Contraction as a Strategy

Total Marks

AQA 7132 · Calculator allowed · about 60 minutes

Name: ________________________________ Date: ____ / ____ / ______

Answer ALL questions. Write full sentences for questions worth 3 marks or more. Show your working for every calculation. The case study business 'Northwick Furnishings' appears in questions 8, 9, 10, 12 and 15; essential figures are repeated where needed.

1 Which one of the following is an example of a retrenchment action by a business?

- [ ] A) Opening three new stores in a neighbouring region
- [ ] B) Closing two underperforming stores to reduce costs
- [ ] C) Launching a new product line to enter a new market
- [ ] D) Increasing advertising spend across all stores

(Total for Question 1 is 1 mark)

2 Identify one situation from the following that would most likely make retrenchment a rational strategic choice for a firm.

- [ ] A) A high-growth emerging market with rising demand
- [ ] B) A saturated domestic market with falling sales
- [ ] C) High profitability and rising market share
- [ ] D) A successful new product launch

(Total for Question 2 is 1 mark)

3 Define the term 'retrenchment' as it is used in a business strategy context.

(Total for Question 3 is 2 marks)

4 Explain one reason a business might choose retrenchment rather than investment in growth, referring to a declining market.

(Total for Question 4 is 3 marks)

5 Define 'redundancy' in the workplace as used in business and employment law.

(Total for Question 5 is 2 marks)

6 Explain one disadvantage to a business of making compulsory redundancies rather than voluntary redundancies.

(Total for Question 6 is 3 marks)

---

7 State two typical uses of funds raised by asset sales during retrenchment.

(Total for Question 7 is 2 marks)

---

8 Case study: Northwick Furnishings is a regional furniture retailer with 12 stores and an online operation. Last year total revenue fell from 9,600,000 pounds to 8,400,000 pounds, and operating profit fell from 720,000 pounds to 120,000 pounds. The managing director is considering closing the four smallest stores and selling two freehold properties to raise cash. Calculate the percentage fall in Northwick Furnishings' revenue. Show your working.

(Total for Question 8 is 2 marks)

---

9 Using the Northwick Furnishings figures in question 8, calculate the absolute fall in operating profit in pounds and the percentage fall in operating profit. Show your working.

(Total for Question 9 is 3 marks)

---

10 Analyse two reasons, using the Northwick Furnishings data above, why retrenchment might be a sensible strategy for the firm now.

(Total for Question 10 is 6 marks)

---

11 State two risks to a business's external reputation that can result from announcing multiple store closures and redundancies.

(Total for Question 11 is 2 marks)

---

12 Northwick Furnishings plans to make 48 staff redundant, offering a statutory redundancy payment of 1,000 pounds per employee plus an enhanced settlement of 2,000 pounds per employee as a one-off agreement. Calculate the total cash cost of these redundancy payments. Show your working.

(Total for Question 12 is 4 marks)

---

13 Explain one advantage to Northwick Furnishings of selling the two freehold properties rather than mortgaging them to raise finance.

(Total for Question 13 is 3 marks)

14 Which one of the following best describes voluntary redundancy?

- ☐ A) Employees are selected and dismissed by the employer without choice
- ☐ B) Employees choose to leave in return for a redundancy payment
- ☐ C) Employees are temporarily laid off and kept on the payroll
- ☐ D) Employees are moved to a different department with the same pay

(Total for Question 14 is 1 mark)

---

15 Recommend whether Northwick Furnishings should proceed with the proposed retrenchment plan of closing four stores, selling two freeholds and making 48 redundancies. Use the figures and risks given in this pack to justify your recommendation.

(Total for Question 15 is 9 marks)

---

16 State two legal or procedural requirements a UK employer must follow when making redundancies.

(Total for Question 16 is 2 marks)

Mark scheme · BUS.AL26 Retrenchment, Redundancy and Business Contraction as a Strategy

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** B cao
- **Answer: B**

Question 3

- **B1** gives a correct definition, e.g. reduction in a firm's scale of operations or withdrawal from markets/units to cut costs
- **B1** adds a development, e.g. closing stores, selling assets or cutting staff to improve financial performance
- **Answer: Retrenchment is a deliberate reduction in the scale of a firm's operations or withdrawal from parts of its business, for example closing units or selling assets, to cut costs and improve financial performance.**

Question 4

- **B1** identifies a reason, e.g. market demand is falling so growth investments are unlikely to generate returns
- **B1** develops the reason, e.g. spending on new products or stores may not be recovered because sales are shrinking
- **B1** links to an outcome, e.g. retrenchment protects cash and reduces losses while the market is weak
- **Answer: If market demand is falling, investing in growth may not be recovered because sales are shrinking; therefore retrenchment protects cash by cutting costs and reducing losses while the market is weak.**

Question 5

- **B1** defines redundancy correctly, e.g. when an employee's job no longer exists or is reduced
- **B1** develops with example, e.g. due to closing a department, falling sales or technological change
- **Answer: Redundancy is when an employee's job ceases to exist or is reduced, for example because a department closes, sales fall or jobs are replaced by technology.**

Question 6

- **B1** identifies a disadvantage, e.g. compulsory redundancies can damage staff morale and trust
- **B1** develops the effect, e.g. remaining staff may become less productive or leave, increasing turnover
- **B1** links to a business consequence, e.g. reduced productivity or recruitment costs may offset some savings
- **Answer: Compulsory redundancies can damage staff morale and trust; remaining staff may become less productive or leave, increasing turnover and recruitment costs, which can offset some of the intended savings.**

Question 7

- **B1** paying redundancy or restructuring costs
- **B1** reducing debt or improving cash reserves for core operations
- **Answer: Paying redundancy or restructuring costs; reducing debt or improving cash reserves for the core business.**

Question 8

- **M1** method: (9,600,000 - 8,400,000) / 9,600,000 seen
- **A1** 12.5% cao
- **Answer: 12.5%.**

Question 9

- **M1** operating profit fall: 720,000 - 120,000 = 600,000 seen
- **M1** percentage fall: 600,000 / 720,000 seen
- **A1** 83.33% cao
- **Answer: Operating profit fell by 600,000 pounds, a 83.33% fall.**

Question 10

- **B1** identifies that revenue has fallen by 12.5% and operating profit has fallen by 83.33%, linking these falls to poor financial performance
- **B1** explains that closing four small stores would reduce fixed costs such as rent and rates, helping restore profitability, using the context of low operating profit
- **B1** identifies that selling two freehold properties would raise cash to pay redundancy costs and reduce debt or improve liquidity
- **B1** explains risk management, e.g. retrenchment focuses on core profitable locations and online operations, helping maintain long term viability if demand is declining
- **B1** identifies a counter risk, e.g. closing stores can lead to lost market share or damaged reputation
- **B1** explains implication of the counter risk, e.g. lost customers could reduce future revenue making retrenchment a short term fix unless core operations are strengthened

Question 11

- **B1** negative media coverage and loss of customer confidence
- **B1** damage to relationships with suppliers and community, harming future partnerships
- **Answer: Negative media coverage and loss of customer confidence; damage to relationships with suppliers and the local community, harming future partnerships.**

Question 12

- **M1** calculates total per employee: 1,000 + 2,000 = 3,000 seen
- **M1** multiplies by number of employees: 3,000 x 48 seen
- **A1** 144,000 pounds cao
- **B1** explicit statement of total cash cost: 144,000 pounds
- **Answer: 144,000 pounds.**

Question 13

- **B1** identifies an advantage, e.g. selling generates immediate cash without increasing debt
- **B1** develops the point, e.g. no ongoing interest payments and no additional secured liabilities
- **B1** links to a business outcome, e.g. improves liquidity and reduces financial risk during a period of weak trading
- **Answer: Selling the freehold properties generates immediate cash without increasing debt, avoiding interest payments and secured liabilities, which improves liquidity and reduces financial risk while trading is weak.**

Question 14

- **B1** B cao
- **Answer: B**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments for or against the plan with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against the plan using some of the pack's figures, but does not fully weigh costs and benefits or reach a strongly justified recommendation.
- **Level 3** (7-9): Weighs the financial evidence and risks from the pack, analyses the short and longer term impacts on profitability, staff and reputation, and reaches a clear, justified recommendation supported by the figures.
- **Indicative content:**
  - For the plan: operating profit has fallen 83.33% and revenue 12.5%, indicating urgent action is needed to cut costs and improve cash flow.
  - For the plan: selling freeholds and making redundancies generates immediate cash (e.g. redundancy cost 144,000 pounds) and reduces ongoing fixed costs, helping restore profitability and liquidity.
  - Against the plan: closures and compulsory redundancies risk damage to reputation, lost market share and lower morale that could reduce future revenue and harm recovery.
  - Against the plan: the one-off costs of redundancy and potential compensation or legal risk may be high, and asset sales reduce future asset backing.
  - Judgement: balanced discussion might recommend limited, targeted retrenchment focused on clearly loss-making stores combined with protective measures such as voluntary redundancy, community communication and investment in online operations; a recommendation should explain why this balances short-term survival and long-term viability.

Question 16

- **B1** consultation with affected employees or representatives, including collective consultation for larger numbers
- **B1** fair and objective selection criteria and proper notice periods and redundancy pay where applicable
- **Answer: Consultation with affected employees or their representatives (and collective consultation where numbers require it); use of fair selection criteria, proper notice periods and payment of redundancy where required.**