

Frog Bikes is considering two options to produce more bikes:

Option 1: Build a new factory in the UK.

Option 2: Expand production at the existing Chinese factory.

(c) Justify which **one** of these two options Frog Bikes should choose.

(9)

Frog Bikes should expand production at the existing Chinese factory. This is because at the Chinese factory the labour costs are lower which results in lower fixed costs than if they produce their bicycles at a factory in the UK. Therefore, Jerry and Shelley Lawson of Frog Bikes will make higher profits due to the total costs being low whilst selling more bicycles and cycling equipment. Also expanding production in the Chinese factory is faster than building a new factory so they will get the bicycles quicker so they can be sold e.g. in time for the summer season.

However, ethically, many consumers might prefer to have the bikes and gear manufactured in the UK where there are strict employee rights policies. Therefore parents might go to competitor cycling brands to buy their child's bike who manufacture in the UK. This means less sales will be made and Jerry and Shelley Lawson's profits might drop.

In conclusion, it depends how ethically most the majority of parents are in relation

(Total for Question 6 = 12 marks)

TOTAL FOR SECTION B = 30 MARKS

to whether they buy from Frog Bikes or a competitor. As most don't worry where the bicycles are sourced then the Lawsons will probably make a profit. Option 2 is cheaper allowing them to reinvest and add value.



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