General Certificate of Education
June 2006
Advanced Level Examination

BUSINESS STUDIES **BUS4**
Unit 4

Thursday 15 June 2006 9.00 am to 10.30 am

For this paper you must have:
- a 12-page answer book

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS4.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information
- The maximum mark for this paper is 84.
  4 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Read the Case Study and answer **all** the questions that follow.

Premier Fuels Ltd

Premier Fuels Ltd operates 23 petrol service stations in the South East and employs 210 staff. Gill Tree is the recently appointed Managing Director of *Premier Fuels Ltd*. On her appointment, she had been told by the outgoing boss of the family firm, Ray Pocock, "I retain a controlling share of the business and I expect my dividends from it to grow by 15% a year." Gill had quickly realised that this would be achieved only with a continuous expansion programme in high profit margin markets.

At Gill's first Board meeting, she asked her directors to examine her graph of sales trend data (**Appendix A**). "Look at my extrapolation of sales for quarter 1 in 2008. It suggests that petrol sales will be only around 6% higher than trend sales were in the same quarter of 2006. This will be insufficient to satisfy Ray's dividend target. Some form of diversification will be essential."

Gill was proposing that the company should buy leases on three large petrol station sites on main roads used by commuters driving into a large city in the Midlands. Unlike all of the company's existing sites, these locations would be developed into high-class convenience stores as well as petrol stations. The focus would be on high quality, ready-to-eat meals, branded groceries, wines and spirits.

Gill stated at the Board meeting that, "Retailing high quality groceries will be a very different venture from selling petrol. I have commissioned management consultants to identify likely locations and to prepare a detailed marketing plan. Their initial research suggests that a small market niche made up of above-average income consumers does exist. However, our marketing strategy would need to be carefully focused and integrated. Relatively high prices should be supported by good customer service and quality products. The management consultants recommend spending around £0.5 million on promotion but we could not justify that amount. Tesco Metro and Sainsbury's Local were the first to exploit this market – but our stores will be distinctive and promotion will be targeted at higher income consumers. Our aim should be to achieve a reasonable level of sales within 12 months."

The location of the new sites would be crucial to their success. The consultants had used quantitative decision-making techniques, as well as considering qualitative factors, before making their proposals for the three locations. Timing is important for the company's cash flow, as the sooner these service stations and high quality convenience stores open, the faster the payback would be on the project. Network analysis (**Appendix B**) suggested that the duration of the critical path for redeveloping the sites would be 14 weeks.

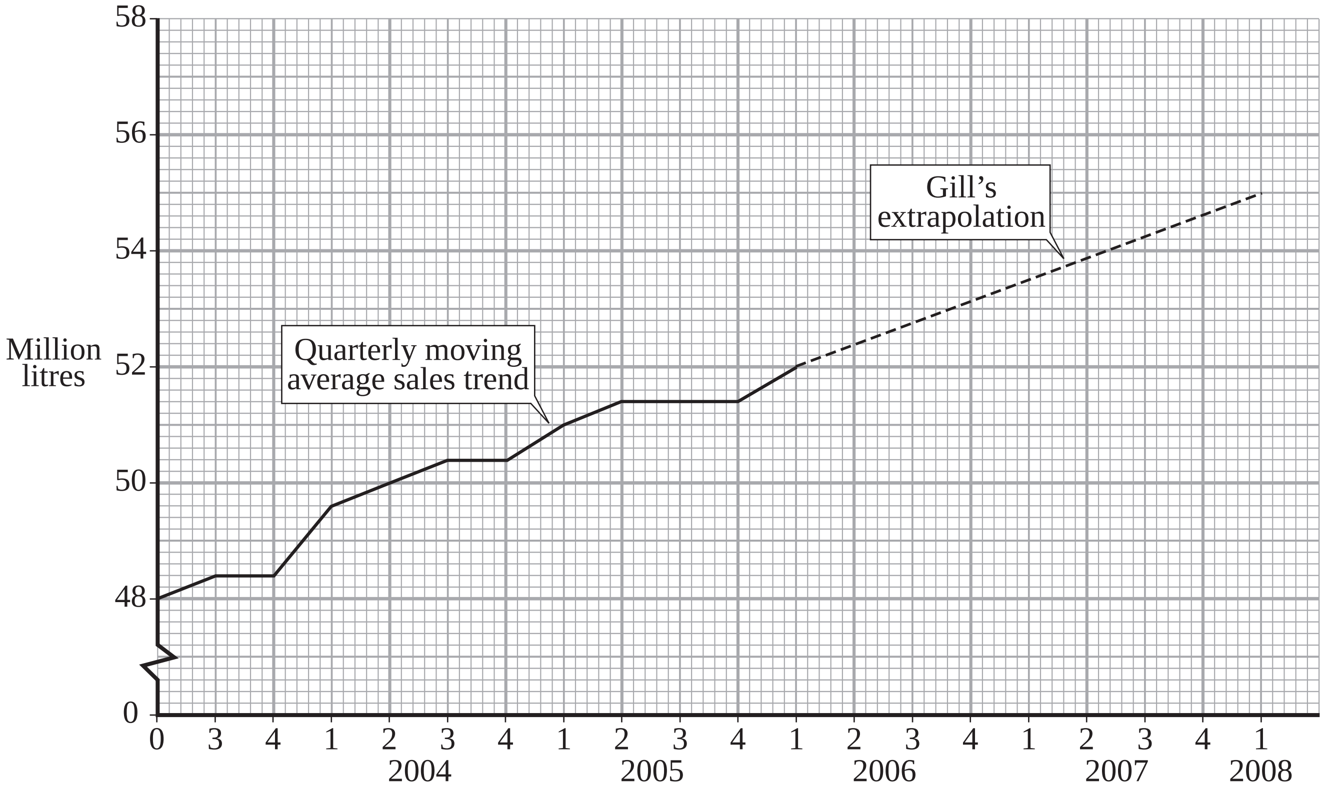
The restrictions on raising finance imposed by private limited company status had meant that internal sources and bank loans had been used most often in the past. This was, once again, the plan of the Finance Director. "As you can see," he said, showing his fellow directors the latest accounts (**Appendix C**), "our balance sheet strength has improved. It has been boosted by the sale and leaseback scheme and the greater than expected life assumed for newly acquired fixed assets. I am sure that the bank will lend the £3 million of capital needed."

Industrial relations within *Premier Fuels Ltd* were troubled. A long-running dispute had existed between management and staff over the introduction of new working practices. Ray had tried, without consultation, to introduce new employment contracts allowing the use of temporary employees and other flexible working practices. All employees opposed the contracts and many threatened to leave if the proposal went ahead. Others called for a vote on union recognition. Although the dispute had not been resolved, management was keen to negotiate further on the introduction of new contracts, believing that they would create more jobs as well as reducing overhead costs for the business.

Following her appointment, Gill held a meeting with the Human Resources Director. "I think there are a number of HR issues we must address," Gill said. "Firstly, I want to resolve the dispute about the introduction of the new employment contracts. Our next priority should be to change the method of payment for employees. The three new sites would be the best place to start. I think we should move from the present, quite generous, hourly wage to the legal minimum wage rate, plus commission for each staff member. This is the way to make the new stores really successful."

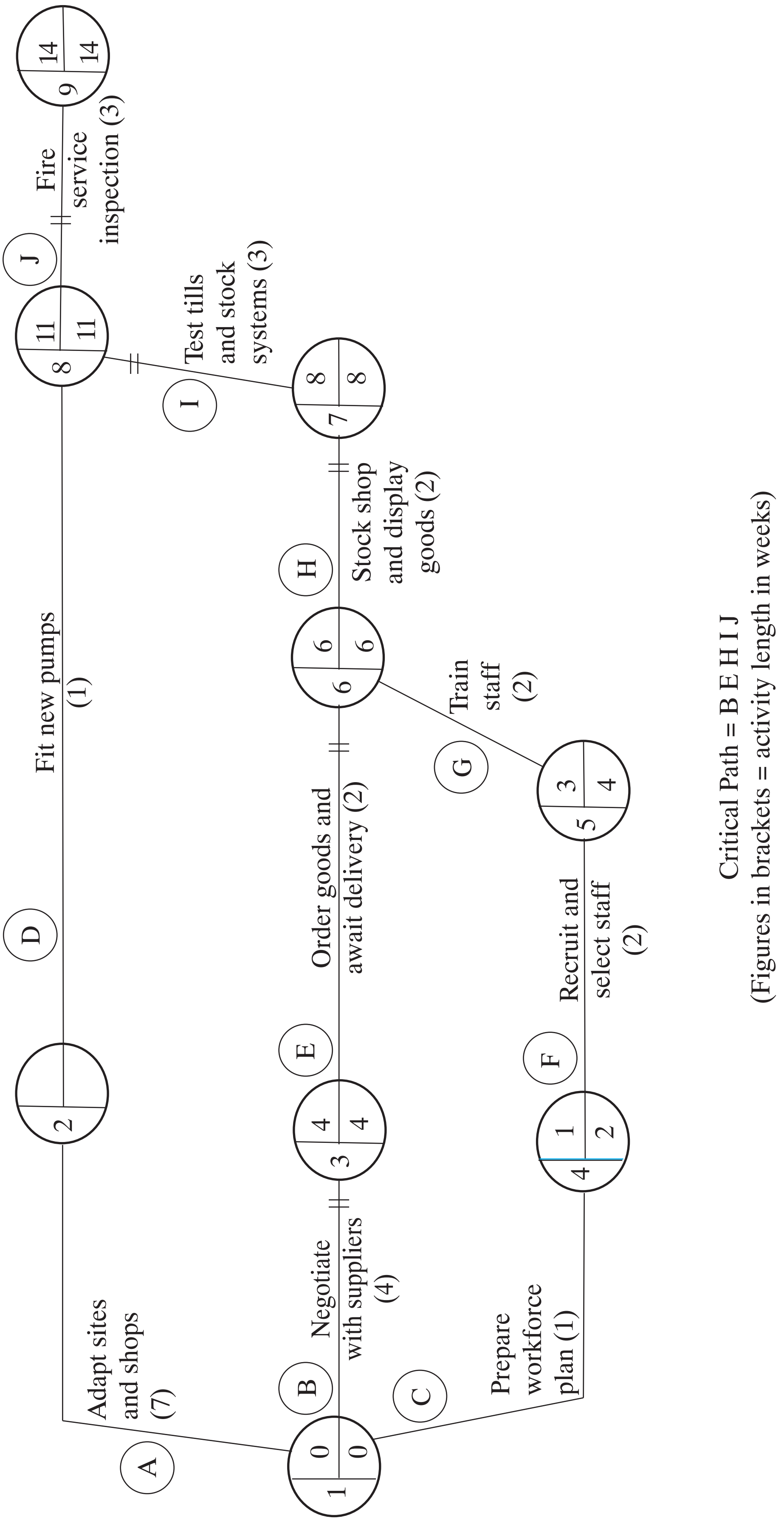
An alternative proposal was preferred by the Human Resources Director, who had always believed that all workers had something to contribute if they were treated honestly and with respect. "I believe that staff should be offered a profit sharing scheme and allocated company shares based on length of service. This would encourage loyalty and keep workers' aims and objectives in line with those of directors." However, at the last Board meeting he was overruled and the directors agreed to plan for the introduction of Gill's pay scheme. It was already clear to Gill that meeting Ray's profit target would be impossible without backing from a management united behind the Board's strategy.

Appendix A: *Premier Fuels Ltd* petrol sales – quarterly moving average sales trend



Turn over ▶

Appendix B: Network diagram for new convenience stores and petrol stations



Appendix C: ***Premier Fuels Ltd*** **– Balance Sheet as at 31 May 2006**

			(£m)
Fixed assets			68
Current assets:			15
Of which:	Stocks	6	
	Debtors	7.5	
	Cash	1.5	
Current liabilities:			20
Of which:	Creditors	8	
	Overdraft	12	
Net current assets (liabilities)			(5)
Net assets employed			**63**
Long-term liabilities			33
Shareholders' funds:			30
Of which:	Share capital	7	
	Retained profit reserves	23	
Capital employed			**63**

1 (a) Analyse how the dispute over the introduction of new temporary and flexible employment contracts might be resolved. *(8 marks)*

(b) Discuss the suitability for *Premier Fuels Ltd* of the staff payment system proposed by Gill for the new sites. *(12 marks)*

2 (a) To what extent can Gill be confident that her sales forecast for quarter 1 in 2008 (**Appendix A**) is accurate? *(8 marks)*

(b) Discuss the relative importance of the factors that could influence the success of *Premier Fuels Ltd's* 'high class convenience store' niche marketing strategy. *(12 marks)*

3 (a) Refer to the network diagram in **Appendix B**.

(i) State the earliest start time and latest finish time at node 2. *(2 marks)*

(ii) Calculate the total float time on activities D and F. *(4 marks)*

(iii) Assume that there is a delay of two weeks in completing activity F. Analyse **one** action that the Operations Manager could take to avoid exceeding the current length of the critical path. *(4 marks)*

(b) Discuss the most important factors that the management consultants might have considered before choosing the locations for the three new sites. *(10 marks)*

4 (a) Analyse, using **two** appropriate ratios, the current strength of *Premier Fuels Ltd's* balance sheet. *(8 marks)*

(b) Assess the usefulness and limitations of the ratio analysis of *Premier Fuels Ltd's* accounts in convincing the bank to lend £3 million for the new project. *(12 marks)*

END OF QUESTIONS

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