Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
January 2012

Business Studies BUSS2

Unit 2 Managing a Business

Thursday 19 January 2012 9.00 am to 10.30 am

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(c), 1(d), 2(c) and 2(d) should be answered in continuous prose. In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

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1 Read the **case study** below and then answer the questions that follow.

Shrewsbury and Midlands Railways Ltd

Shrewsbury and Midlands Railways Ltd (*SMR*) has operated trains from Shrewsbury through Birmingham to Marylebone Station in London since 2009. The company is in competition with much larger rivals such as Virgin Trains. It offers a distinctive and customer-friendly service targeted at a market segment comprising leisure (rather than business) travellers. It runs few trains during the rush hours and has a single fare irrespective of the time of travel. For example, its fare from Shrewsbury through Birmingham to London is £40. Virgin Trains charges over £150 for a quicker and more frequent service from Birmingham to London. *SMR*'s market research has suggested that customers want a simple pricing policy and that price elasticity of demand is –2.2 for the company's services.

The company's services have benefited from high levels of positive media reviews and sales have started to rise significantly as these services have entered the growth stage of their product life cycle. This was a relief for the management team as it could not afford expensive advertising campaigns. The company's financial performance has been weak, with ongoing cash flow problems.

SMR's workforce has grown steadily from 38 in 2009 to 74 by December 2011. The company advertises widely for staff to deliver its customer-friendly approach and invests in extensive training, including customer service. It will continue to rely on external recruitment as it expands. It forecasts increasing its passenger numbers by 175% between 2011 and 2013.

Responding to the results of primary market research, the company is keen to increase the quality of its services and the number of routes offered. It plans, once the finance becomes available, to refurbish its carriages and to provide facilities such as more comfortable seating, freshly cooked meals and free WiFi. Despite this commitment to improving quality, *SMR*'s Chief Executive has argued that the company should have increased levels of capacity utilisation as its main operational target.

Figure 1: SMR's key data 2009 – 2011

	2009	2010	2011
Net cash flow	(£268 450)	(£202 115)	(£48 455)
Profit margin	−17.4%	−3.2%	1.3%
Average capacity utilisation	34.8%	50.4%	66.7%
Average cost per passenger	£54.45	£44.61	£36.52
Percentage of trains arriving on time	91.24	88.64	86.12
Labour turnover	18.4%	20.2%	20.6%

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Answer **all** questions in the spaces provided.

1 (a) *SMR*'s train services are entering the growth stage of their product life cycle. Analyse the possible ways in which the company may respond to this.

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1 (b) Analyse why it is particularly important for *SMR* to have an effective system of recruitment.

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1 (c) Has the existence of larger competitors, such as Virgin Trains, been the biggest influence on the design of *SMR*'s marketing mix? Justify your view.

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1 (d) To what extent do you agree with the Chief Executive's view that the company's main operational target should continue to be 'increased levels of capacity utilisation' (lines 24 – 25)?

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2 Read the **case study** below and then answer the questions that follow.

J Bailey Ltd

J Bailey Ltd was established in 1999 and has grown steadily. It is a retailer selling diverse products from health and beauty items to household goods, food, toys and clothing. *J Bailey Ltd* prides itself on being price competitive, partly through its low cost locations away from high streets and shopping malls. Despite regular cash flow difficulties, the company has generated high profit margins (averaging 22%) to finance expansion. The company's sixteenth branch opened on 1 November 2011, in Lincoln. Plans exist to open five more branches by the end of 2012.

The company's business model seeks to control costs tightly. Staffing levels are low in comparison to rivals, and expenditure on training (at £300 per employee each year) is only 30% of the equivalent figure for a major competitor. *J Bailey Ltd*'s labour turnover rate reached 36.4% in 2011, compared with 31.7% in 2010. Marketing costs, including expenditure on research, are kept to a minimum, with relatively little primary data used in decision-making.

Company founder, John Bailey, was pleased with the figures for the Lincoln branch's first two months of trading, despite heavy local advertising (and special offers) by a rival discount store prior to its opening. John announced to the company's shareholders that he was certain that the branch would match the financial success of the rest of the business.

Figure 2: Extract from the budget for J Bailey Ltd's Lincoln branch, November and December 2011

	November (£000s)			December (£000s)		
	Budget	Actual	Variance	Budget	Actual	Variance
Sales revenue	**132.45**	**126.34**	**6.11 A**	**159.22**	**140.85**	**18.37 A**
COSTS:						
Cost of stock	51.81	47.74	4.07 F	68.51	52.07	16.44 F
Wages and salaries	32.06	30.24	1.82 F	34.18	30.00	4.18 F
Rent and business rates	12.11	12.20	0.09 A	12.11	12.20	0.09 A
Fuel	7.89	7.33	0.56 F	8.85	7.02	1.83 F
Marketing costs (including research)	16.12	12.99	3.13 F	15.00	12.66	2.34 F
Total costs	**119.99**	**110.50**	**9.49 F**			
Profit or (loss)	**12.46**	**15.84**				

A = adverse F = favourable

The company has faced a steady rise in the number of complaints received about poor levels of customer service in its shops. The company is determined to take action to overcome this problem.

Recently, *J Bailey Ltd* hired management consultants to give advice on methods of improving customer service and enhancing the performance of the company's workforce. The consultants visited all the stores and recommended that junior employees' jobs should be redesigned to improve motivation levels. They identified some key findings:

- pay rates, although not high, are not the major concern for most employees
- branch managers do not allow other employees opportunities for job enrichment or enlargement; most employees carry out a narrow range of activities.

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2 (a) Calculate the profit variance for the Lincoln branch for **December only**.

Profit variance .....

Workings .....

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2 (b) Analyse the factors that may determine the standard of *J Bailey Ltd*'s customer service.

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2 (c) *J Bailey Ltd* has been advised to redesign its junior employees' jobs. To what extent do you think that this would be the best way to improve the performance of the company's workforce?

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2 (d) John Bailey is 'certain' that the new Lincoln branch will match the financial success of the rest of the business. Do you agree with his judgement? Justify your view.

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END OF QUESTIONS

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