

Centre Number						Candidate Number				
Surname										
Other Names										
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	



General Certificate of Education
Advanced Subsidiary Examination
June 2012

Business Studies

BUSS2

Unit 2 Managing a Business

Monday 21 May 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.



J U N 1 2 B U S S 2 0 1

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

High aspirations

Tree Tops Ltd (TT Ltd) is an outdoor pursuits company operating 28 high wire adventure sites in the UK. The company aims to give 'a unique experience'. Its sites offer rope ladders, swings and trapezes, although some customers have asked for additional facilities such as zip lines. *TT Ltd* was established by Carmella de Lucia in 2000 and has grown steadily. Carmella's main objective is to maximise short-term profits. Despite rising costs, the company's net profit margin has risen steadily to 21.7% in 2011. *TT Ltd* faces intense competition from rivals such as Go Ape Ltd which has announced expansion plans. For the first time, *TT Ltd*'s customer numbers fell in 2011 by 1.5%.

The company has always placed a high emphasis on health and safety in what could be a dangerous environment for its customers, and its employees are relatively well paid. Over 65% of its training budget is used for health and safety training and this budget is unchanged for 2012 at 4% of company revenue.

The company has received a rising level of complaints about long queues at its sites, especially the sites opened recently. Site managers at these locations argue that there are insufficient facilities for the customer numbers, and that prices, at £33 per adult, are too high, especially given these shortcomings. One manager noted that a 2007 survey showed price elasticity of demand for this type of leisure product was -2.0 . There is increasing dissatisfaction from employees about their workloads and lack of job rotation. Since 2009, annual labour turnover has doubled to 24%.

In early May 2012, Carmella and the other directors made a number of key decisions to:

- continue with the policy of setting prices 10% above those of rivals
- switch £1.5 million from market research to advertising and sales promotions targeted at increasing customer numbers at less profitable sites
- delegate control of budgets to site managers at each of its 28 sites with immediate effect; they would then have more freedom in setting budgets.

Carmella believes that the company should adopt a policy of linking employees' pay to achieving targets for customer numbers at all of its sites. She forecasts that adopting this policy would increase average wages by 4% and increase customer numbers by 5%. A decision on this is to be made next month.



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

1 (a) Analyse **two** possible solutions to *TT Ltd's* poor level of customer service.

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1 (b) Examine the possible consequences for *TT Ltd* of delegating budgets to site managers at each of its 28 sites.

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1 (d) Carmella would like to link employees' pay to achieving targets on customer numbers. Do you think the other directors should approve this proposal? Justify your view.

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

In at the deep end

Hibernian Shellfish Ltd (HS Ltd) grows mussels. These mussels were originally sold to the UK market. In 2011, the Scottish company moved its entire operations to England due to low and declining profitability. Its net profit margin had fallen to 3.7%.

HS Ltd opened a large offshore mussel farm in Dorset, in 2011, investing £12.2 million. The company leased nine square kilometres of seabed and plans to produce 4320 tonnes of mussels annually from 2014. The mussels are grown on ropes suspended above the seabed and employees will have to work long hours during 2012 and 2013 completing this work. Mussels will take two years to mature in Dorset's warmer waters, rather than three years in Scotland. Sales will start from 2013.

The company will enter the European market for the first time in 2014, selling to businesses in Holland and Belgium. The *HS Ltd* brand is unknown in Europe and will require heavy marketing as the market is intensively competitive. However, market research suggests European mussel prices should increase as demand increases. Mussels are perishable once harvested and must be frozen or sold quickly.

Figure 1: Key financial data and other data for Hibernian Shellfish Ltd

Cash balance 30 April 2012	(£2.525 million)	
Hibernian Shellfish Ltd's forecast total costs per year	2013	£8.4 million
	2014	£11.85 million
Expected standard market price of mussels per tonne 2013–2014	£3000	
Forecast production of mussels 2013	2150 tonnes	
Outstanding company loans 30 April 2012	£6.5 million	
Forecast percentage of sales to Holland and Belgium in 2014	85%	
Price premium for high quality mussels (extra £ per tonne)	£500	

The company currently employs 40 workers a number of whom are long-serving and have transferred from Scotland. Employee numbers will increase by 50% for 2014. Without consulting the workforce Calum McCloud, the company's CEO, has decided to implement a total quality management (TQM) system from January 2013, at a forecast cost of over £1 million. Following extensive training in TQM methods, employees will be organised into a series of teams growing, harvesting, packaging and distributing the mussels. In Scotland, a quality control system had been used with limited success.

Calum's report to his fellow directors in May 2012 was positive. Despite their concerns about the company's profitability, Calum said that he was more worried about cash flow rather than profitability, especially with interest rates forecast to rise.



2 (a) Calculate the forecast annual labour productivity for the company's mussel farm in Dorset in **2014**.

Forecast annual labour productivity

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Workings

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Question 2 continues on the next page

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2 (b) Analyse **two** possible influences on the company’s marketing mix.

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END OF QUESTIONS



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