

Teacher Resource Bank

GCE Business Studies

Additional Specimen Questions:

- BUSS3: Strategies for Success



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General Certificate of Education
Advanced Level Examination
Specimen Paper for 2009 and 2010

Business Studies

BUSS3

Unit 3 Strategies for Success

Date: Time

For this paper you must have:

- a 12-page answer book
- a calculator.

Time allowed

- 1 hour 45 minutes

Instructions

- Use black ink or black 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 BUSS3.
- Answer **all** questions.
- Do all rough work in your answer 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.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Formulae for Financial Ratios

Financial ratio	Formula
Current ratio	current assets : current liabilities
Acid test ratio	liquid assets : current liabilities where liquid assets are current assets – inventories (stock).
Return on capital employed % (ROCE)	$\frac{\text{operating profit}}{\text{total equity} + \text{non-current liabilities}^{**}} \times 100$ ** Where this equals capital employed
Asset turnover	$\frac{\text{revenue}}{\text{net assets}}$
Inventory or stock turnover	$\frac{\text{cost of goods sold}}{\text{average inventories held}}$
Payables (Creditors) days (Payables'* collection period)	$\frac{\text{payables}^*}{\text{cost of goods sold}} \times 365$ * payables = creditors throughout this formula.
Receivables (Debtors) days (Receivables'* collection period)	$\frac{\text{receivables}^*}{\text{revenue}} \times 365$ * receivables = debtors throughout this formula.
Gearing	$\frac{\text{non-current liabilities}}{\text{total equity} + \text{non-current liabilities}^{**}} \times 100$
Dividend per share (in pence)	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
Dividend yield (%)	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

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

Shropshire Hills Water plc

Difficult times for the company

Shropshire Hills Water plc started in 1983 and was based in converted barns on a farm near to Church Stretton. From this point, *Shropshire Hills Water plc* has become the market leader in the UK market for bottled water and has established itself as a premium brand. In 1997 and 2001 it bought two other British companies that supply bottled water, and in 2005 it purchased a major French mineral water company.

This growth has allowed the company to increase its marketing budget substantially (including the use of television advertising), although marketing costs have fallen as a percentage of revenue. The company has benefited from falling unit costs for bottles and packaging as it has increased its production level. The purchase of the other businesses has resulted in *Shropshire Hills Water plc* operating on eight different sites in the UK and in France, as opposed to just one site until 1997. The management team has experienced problems at times in managing a multi-site business and communication has sometimes been poor. Difficulties co-ordinating supplies between the sites have led to production being disrupted and increased holdings of stocks of water, bottles and other packaging materials.

Shropshire Hills Water plc's management team has been concerned about the company's financial performance. The team has developed two new functional strategies to restore the company's financial health.

The management team has already decided to implement the first of these. It is to delayer and to decentralise the company's workforce, in a major change of approach from its current policy of centralisation. The company will remove at least one layer of management, giving greater authority to junior employees, in the role of team leaders, to take decisions relating to staffing and production. The company expects to make a number of redundancies, many of which will be managers. Alongside this, *Shropshire Hills Water plc* intends to decentralise its organisational structure, allowing each of its plants to operate with greater independence, including operating as separate profit centres. More decisions will be made locally, although the management team will set targets for each factory in terms of production, productivity and profits. The management team intends to proceed with these changes despite opposition from both the trade unions operating within *Shropshire Hills Water plc's* factories.

The controversial "fruit juice strategy"

The management team is divided about the merits of its second functional strategy. It has yet to make a decision on its "fruit juice strategy". The company's chief executive believes that it is vital to introduce new products to strengthen the company's position and to reduce the risk involved in selling a single product. She has put together a proposal to introduce a range of fruit juices to take advantage of trends towards more healthy products.

This strategy has a number of key features.

- To target consumers in the UK and most European Union countries.
- To use the company's brand name to establish a premium product, offering the opportunity to generate net profit margins in excess of 15%.
- To negotiate with major fruit producers in the UK and overseas to source supplies
- To build two factories (one in France and one in the UK) to process and package the fruit juices.
- To use the latest technology available on the production lines for fruit juices, meaning that only 800 new employees would be required to operate the facility.
- To make use of the company's highly efficient distribution network to supply fruit juices to as many of its existing customers as possible.

The forecast investment required to implement this strategy is £400 million.

STATISTICAL APPENDICES

Appendix A: Shropshire Hills Water – Summarised Balance Sheets, April 30th, 2008 and 2009 and Income statements (profit and loss accounts), 2008 and 2009

Balance Sheet	2009 (£m)	2008 (£m)
Non-current assets (fixed assets)	23 864	20 125
Current assets:		
Inventories (stock)	2 430	1 995
Receivables (debtors)	1 311	1 985
Cash and other cash equivalents	2 559	2 515
Total current assets	6 300	6 495
Current liabilities	10 263	9 875
Net current liabilities	(3 963)	(3 380)
Non-current liabilities (long-term loans)	(7 999)	(5 725)
Net assets	11 902	11 020
Total equity (shareholders' funds)	11 902	11 020

Income Statement	2009 (£m)	2008 (£m)
Revenue (Turnover)	15 298	15 301
Cost of sales	(13 668)	(13 405)
Gross profit	1 630	1 896
Expenses	(1 019)	(872)
Operating profit	611	1 024
Profit for the year	305	795

Payables (creditors): £2 750m in 2008; £2 900m in 2009.

Index number showing unit cost of producing a bottle of mineral water (adjusted for inflation)

	1996 (Base)	2000	2004	2008	2011 (Forecast)
Shropshire Hills Water plc	100	87	81	89	91
Industry average	100	95	93	92	93

Appendix B: Marketing information

Volume of bottled water consumed in the UK and average price per litre

Year	Million Litres Consumed	Average Price Per Litre (pence)
2005	2200	67
2006	2270	68
2007	2180	68
2008	2001	72

Forecast marketing data for UK fruit juice market

Year	Sales (million litres)	Number of companies producing fruit juice in the UK
2010	1895	14
2011	2050	11
2012	2225	9
2013	2400	8

- Average annual change in international fruit prices (2006-2008): +12.1%
- Estimated price elasticity of demand for fruit juice in the European Union: -0.6.

Appendix C: Other data

Actual and forecast (*in italics*) HR data 2008–2011

Year	Training budget (£ million)	Average span of control for managers	Proportion of the workforce on temporary or part-time contracts
2008	12.5	11	13
2009	13	11	14
2010	12.8	13	16
2011	12	14	19

- Percentage of the workforce that are Trade Union members: 67%
- Estimated number of suppliers of fruit that will be required: 125–150

TURN OVER FOR QUESTIONS

Turn over ►

- 1 Using relevant ratios in support of your answer, analyse the financial efficiency of *Shropshire Hills Water plc* over the past two years. (10 marks)
- 2 To what extent has *Shropshire Hills Water plc* benefited from increasing the scale of its operations? (18 marks)
- 3 Will the proposed change in *Shropshire Hills Water plc*'s organisational structure improve the business's competitiveness? Justify your view. (18 marks)
- 4 Using all the information available to you, complete the following tasks:
 - Analyse the case for *Shropshire Hills Water plc* producing a range of fruit juices.
 - Analyse the case against *Shropshire Hills Water plc* producing a range of fruit juices.
 - Make a justified recommendation whether *Shropshire Hills Water plc* should go-ahead and produce a range of fruit juices. (34 marks)

END OF QUESTIONS



General Certificate of Education

Business Studies

BUSS3 Strategies for Success

Specimen Mark Scheme

For 2009 and 2010

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

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Set and published by the Assessment and Qualifications Alliance.

General Marking Guidance

You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 years old, writing under examination conditions

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a Levels of Response approach is that there may be more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for knowing and explaining a point relevant to the question
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to: <ul style="list-style-type: none"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 10 marks

Using relevant ratios in support of your answer, analyse the financial efficiency of *Shropshire Hills Water plc* over the past two years. (10 marks)

	Content 2 marks	Application 4 marks	Analysis 4 marks
Level 3		4 marks Candidate carries through both calculations correctly, expressing answers in correct format	4 marks Candidate makes good attempt to interpret results
Level 2	2 marks Candidate selects two relevant ratios or demonstrates good knowledge of efficiency in other way	3–2 marks Candidate makes significant progress with calculations	3–2 marks Candidate makes sound attempt to interpret results
Level 1	1 mark Candidate selects one relevant ratio or demonstrates limited knowledge of efficiency in other way	1 mark Candidate makes limited attempt to complete calculations	1 mark Candidate makes limited attempt to interpret results

Relevant ratios should include:

- Asset turnover
- Inventory or stock turnover
- Payables or creditor days
- Receivables or debtor days.

Asset turnover = $\frac{\text{revenue}}{\text{net assets}}$ 2008: $\frac{£15\,301\text{m}}{£11\,020\text{m}} = 1.39$ 2009: $\frac{£15\,298\text{m}}{£11\,902\text{m}} = 1.29$

- The efficiency of the business has declined over the two years as an increasing amount of net assets have generated a smaller amount of revenue.
- The company's assets are being used less intensively – or less effectively.

Inventory (stock) turnover = $\frac{\text{cost of goods sold}}{\text{average inventories held}}$

2008: $\frac{£13\,405\text{m}}{£1\,995\text{m}} = 6.72$ times 2009: $\frac{£13\,668\text{m}}{£2\,430\text{m}} = 5.63$ times

- Inventory or stock turnover figure has declined over the two years suggesting a fall in financial efficiency.
- The company is holding larger inventories relative to its cost of sales.
- The calculation may not be entirely accurate as the balance sheet figure for inventories will not necessarily be the average figure and cost of goods sold may not be a good measure of sales (valued at cost).

Payables collection period = $\frac{\text{payables}^*}{\text{cost of sales}} \times 365$

2008: $\frac{\pounds 2\,750\text{m}}{\pounds 13\,405\text{m}} \times 365 = 74.88$ days

2009: $\frac{\pounds 2\,900\text{m}}{\pounds 13\,668\text{m}} \times 365 = 77.44$ days

- The company's cash management may be improving in that it is delaying payment to suppliers – and this is a long period anyway.
- Full analysis depends on comparing this figure to receivable (debtor) days.

Receivables collection period = $\frac{\text{receivables}^*}{\text{Revenue}} \times 365$

2008: $\frac{\pounds 1\,985}{\pounds 15\,301\text{m}} \times 365 = 47.35$

2009: $\frac{\pounds 1\,311\text{m}}{\pounds 15\,298\text{m}} \times 365 = 31.28$ days

- This ratio indicates an improvement in financial efficiency as the number of days the company waits for its receivables has declined sharply, strengthening its cash position.
- By company payables and receivable days, *Shropshire Hills Water plc* is managing this aspect of its finances efficiently and this efficiency is improving.

2

Total for this question: 18 marks

To what extent has *Shropshire Hills Water plc* benefited from increasing the scale of its operations?
(18 marks)

	Content 4 marks	Application 5 marks	Analysis 4 marks
Level 4	4 marks Candidate identifies two or more relevant factors and shows good understanding of economies of scale		
Level 3	3 marks Candidate identifies two or more relevant factors and shows good understanding of economies of scale or some equivalent combination	5–4 marks Candidate makes good attempt to apply answer to <i>Shropshire Hills Water plc's</i> circumstances	4 marks Good analysis of argument, developing points fully
Level 2	2 marks Candidate offers two or more relevant arguments or shows good understanding of economies of scale	3–2 marks Candidate makes sound attempt to apply answer to <i>Shropshire Hills Water plc's</i> circumstances	3–2 marks Sound analysis of argument
Level 1	1 mark Candidate offers single relevant argument or shows limited understanding of economies of scale	1 mark Candidate makes limited attempt to apply answer to <i>Shropshire Hills Water plc's</i> circumstances	1 mark Limited analysis of argument

Relevant answers might include the following:

- The company's unit costs have fallen significantly – at least until 2004 and ahead of the industry in general.
- Purchasing economies have been created enabling it to buy bottles and other products at lower unit prices.
- The business's increasing scale has allowed it to use television advertising without forcing up its unit costs.
- Producing on a number of sites had made communication more difficult and has resulted in some loss of production.
- Multi-site production, especially in Europe, has made co-ordinating the company's operation more difficult.

Points for evaluation might include:

- The business may have moved from a position of operating with economies of scale to operating under a situation of diseconomies of scale as it has grown.
- That the company had decided to decentralise could suggest that diseconomies of scale are having a significant effect.
- *Shropshire Hills Water plc* has clearly benefited from economies of scale as it has become UK market leader – scale matters in this type of market.

For evaluation, you should award marks using the grid below:

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

Level	Descriptor	Marks
E3	Candidate shows good judgement in weighing up overall benefits of increasing its scale of production. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5–4
E2	Some judgement shown in reaching a conclusion about the overall benefits of increasing its scale of production. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–2
E1	Limited judgement shown. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1

3

Total for this question: 18 marks

Will the proposed change in *Shropshire Hills Water plc*'s organisational structure improve the business's competitiveness? Justify your view. (18 marks)

	Content 4 marks	Application 5 marks	Analysis 4 marks
Level 4	4 marks Candidate identifies two or more relevant factors and shows good understanding of organisational structures		
Level 3	3 marks Candidate identifies two or more relevant factors and shows good understanding of organisational structures or equivalent combination	4–5 marks Candidate makes good attempt to apply answer to <i>Shropshire Hills Water plc</i> 's circumstances	4 marks Good analysis of argument, developing points fully in relation to competitiveness
Level 2	2 marks Candidate offers two or more relevant factors or shows good understanding of organisational structures or a combination	3–2 marks Candidate makes sound attempt to apply answer to <i>Shropshire Hills Water plc</i> 's circumstances	3–2 marks Sound analysis of argument linking responses to competitiveness
Level 1	1 mark Candidate offers single relevant argument or shows limited understanding of organisational structure	1 mark Candidate makes limited attempt to apply answer to <i>Shropshire Hills Water plc</i> 's circumstances	1 mark Limited analysis of argument

Relevant answers might include the following:

- The redundancies should reduce the company's labour costs, especially as the posts to be made redundant are middle managers – the company's cost of sales have risen over the last year whilst sales have fallen.
- The company's unit costs have also increased recently, this should help here too.
- There are motivational benefits that may result from this change as junior employees are given more responsibility. This may improve the performance of the workforce.
- *Shropshire Hills Water plc* has faced problems communicating and co-ordinating its factories – decentralising should assist with these issues.
- The company will incur costs from implementing its proposed redundancies.
- The company is reducing its expenditure on training at a time when it is more necessary.
- Two-thirds of the company's workforce are members of a trade union and they are opposed to the plans and a quick implementation of this strategy may lead to industrial relations difficulties.

Points for evaluation might include:

- The success of the strategy will depend on preparing employees effectively for changing roles, possibly requiring training.
- The timescale may be an important issue as these changes may take time to implement and have an impact on competitiveness.
- Many other factors will impact on the company's competitiveness.

For evaluation, you should award marks using the grid below:

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

Level	Descriptor	Marks
E3	Candidate shows good judgement in weighing up the overall value of changing its organisational structure. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5–4
E2	Some judgement shown in reaching a conclusion about the effects on competitiveness. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–2
E1	Limited judgement shown. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1

4

Total for this question: 34 marks

Using all the information available to you, complete the following tasks:

- analyse the arguments **for** *Shropshire Hills Water plc* producing a range of fruit juices.
- analyse the arguments **against** *Shropshire Hills Water plc* producing a range of fruit juices.
- make a justified recommendation whether *Shropshire Hills Water plc* should go-ahead and produce a range of fruit juices. (34 marks)

	Content 6 marks	Application 10 marks	Analysis 8 marks
Level 3	6–5 marks Candidate offers arguments on both sides with DEVELOPMENT	10–8marks Candidate's arguments are consistently rooted in the case material	8–6 marks Good analysis - arguments are well developed on both sides
Level 2	4–3 marks Candidate offers two or more arguments on both sides	7–4 marks Candidate makes good attempt to use context to develop arguments	5–3 marks Reasonable analysis of the argument(s)
Level 1	2–1 marks Candidate identifies single relevant argument	3–1 marks Candidate makes limited attempt to apply knowledge to the scenario	2–1 marks Limited analysis of the argument(s)

Arguments for producing fruit juices:

- The market for fruit juices is forecast to grow at a relatively fast rate, whilst that for bottled water is declining.
- The forecast net profit margin for fruit juices is around 15%, whilst that achieved in 2009 on bottled water was only a little in excess of 3%.
- The company's asset turnover ratio has shown a significant decline over the last two years, from 1.39 to 1.29, suggesting that better ways to utilise assets may be found.
- The company needs to take some action as its profit margin is declining from 6.12% in 2008 to 3.97% in 2009.
- PED for fruit juice in the EU is -0.6, suggesting some freedom in pricing decisions.

Arguments against producing fruit juices:

- The fall in the sales of bottled water is very recent – is this evidence of a change in tastes and fashion?
- *Shropshire Hills Water plc* has no experience in operating in the fruit juice market.
- The company will have to deal with a large number of suppliers of fruit, making this a complex issue in terms of suppliers.
- The number of competitors is due to fall in this market whilst sales are rising, possibly suggesting that competition could become more intense.
- The price per litre for bottled water is forecast to rise, giving *Shropshire Hills Water plc* an opportunity to increase the profit margin on this product.

Recommendation

- The need to make a change because of a declining financial position does not mean that fruit juice production is the answer. What other options might the company consider?
- The company is undergoing a substantial change to its organisational structure – should the fruit juice project be implemented at the same time?
- This strategy is product development and is not high risk, especially for a company the size of *Shropshire Hills Water plc*.

For evaluation, you should award marks using the grid below:

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate offers his/her ideas.

Level	Descriptor	Marks
E3	Candidate offers judgement plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	10–8
E2	Candidate offers judgement plus limited justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	7–4
E1	Candidate offers undeveloped judgment based on evidence. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	3–1

BUSS3 Assessment Grid

Questions	Content	Application	Analysis	Evaluation	Total
1	2	4	4	0	12
2	4	5	4	5	18
3	4	5	4	5	16
4	6	10	8	10	34
Total	16	24	20	20	80