



ADVANCED  
General Certificate of Education  
January 2014

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## Business Studies

Assessment Unit A2 1

*assessing*

Making Business Decisions

[AT211]

WEDNESDAY 15 JANUARY, MORNING

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MV18

### TIME

2 hours, plus your additional time allowance.

### INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.

Answer **all** questions.

### INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in Questions **5** and **6**.

Figures in brackets printed at the end of each question indicate the marks awarded to each question or part question.

## **ADVICE TO CANDIDATES**

You are advised to take account of the marks for each question or part question.

Read the information below and answer the questions that follow.

## **Grandstandings Ltd**

Grandstandings Ltd is a Coleraine based company that specialises in providing temporary portable seating for events such as golf tournaments, music concerts and race meetings. Some of the high profile events the company has been involved with include the Irish Open Golf tournament, the UK City of Culture, the Milk Cup football tournament, the Great North Run, the Glastonbury Festival and the Oxygen Festival.

Since the company was set up five years ago, it has built up a reputation for attention to detail, high quality customer service and a focus on health and safety. Consequently, a large percentage of its revenue comes from repeat business while many new customers and events are the result of referrals from other satisfied customers.

Grandstandings Ltd has grown very quickly because of the need to provide facilities for a number of different events taking place at around the same time. This has necessitated a growing workforce, a much larger distribution network, a wider variety and volume of seating facilities and constant customer-led innovation. The workforce is divided into a number of project teams that rely on excellent communication with Head Office. Some financial performance indicators are shown in **Table 1** overleaf.

**Table 1: Financial Performance of Grandstandings Ltd (2012–2013)**

	<b>2012</b>	<b>2013</b>
Sales Revenue	£2.5 million	£4 million
Net Profit	£0.9 million	£1.5 million
Capital Employed	£4.6 million	£6 million
Net Profit Margin	36%	37.5%
Current Ratio	2.5:1	1.2:1
Gearing	5%	25%
ROCE	19.6%	25%

Due to the success of Grandstandings Ltd, it has been necessary to recruit a more multi-skilled and flexible workforce. All the company's employees, from the in-house team of designers to the fitters and drivers have been recruited from within a 50 mile radius of Coleraine. This is boosting the local economy as the workforce has now reached 100 staff.

The company's products range from tiered grandstands to upholstered seating with different varieties of legroom and armrests. These can be either "tip-up" or rigid. Grandstandings Ltd has recently invested in new clip-together seating that folds, enabling efficient storage, transport and handling.

The bulky nature of Grandstandings Ltd's products means that transportation can be a major undertaking especially to venues across the Irish Sea. The weather can also play havoc with the transportation of facilities and Grandstandings Ltd is considering basing some storage facilities in England.

Two sites have been identified as possible solutions to the problem, one in Birmingham and another in Liverpool. The Liverpool site would cost £300,000 while the Birmingham site would cost £500,000. However, despite the higher cost, a decision tree analysis revealed that the Birmingham site might still be the better option.

Another major ongoing issue facing the business is the requirement for effective communication with project teams while "on the road". The nature of the industry means that some events (e.g. golf tournaments) may over-run, resulting in the unavailability of those facilities for other events until later than scheduled. Head Office in Coleraine needs to have constant updates so that contingency plans can quickly be put into operation.

In the interest of increasing efficiency and improving profitability, two communications systems have been researched, each with different features and benefits. The Hypo GPS enables vehicles to be tracked continuously and alternative routes conveyed to drivers while on the move. The Viril SNV provides the business with an integrated mapping of all vehicles along with status reports. **Table 2** overleaf contains the estimated Average Rate of Return (ARR) figures for both systems.

**Table 2: Average Rate of Return Estimates**

	<b>Hypo GPS</b>	<b>Viril SNV</b>
Initial capital outlay	(£80,000)	(£100,000)
ARR	8%	10%

Management is aware of the quantitative and qualitative factors that need to be considered when deciding between the two communication systems.

Candidates must answer **all** questions.

- 1 Explain what is meant by stakeholder objectives using an example from the case study to illustrate your answer. [4]
  
- 2 Analyse the benefits of decision trees as a tool for decision-making in Grandstandings Ltd. [6]
  
- 3 Discuss growth as an appropriate objective for Grandstandings Ltd. [15]
  
- 4 Discuss the advantages and disadvantages of using Average Rate of Return (ARR) as a method of investment appraisal for a business such as Grandstandings Ltd. [15]
  
- 5 Evaluate the usefulness of contingency planning to a business such as Grandstandings Ltd. [20]
  
- 6 Evaluate the financial performance of Grandstandings Ltd using the data given in **Table 1**. [20]

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