

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**BUSINESS STUDIES**

**2873**

Business Behaviour

Monday

**5 JUNE 2006**

Afternoon

1 hour 15 minutes

Additional materials:

8 page answer booklet

**Candidates may use calculators in this examination.**

**TIME** 1 hour 15 minutes

**INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** the questions.
- If you use extra sheets of paper, fasten the sheets to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is 60.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

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**This question paper consists of 6 printed pages and 2 blank pages.**

Answer **all** questions.

- 1 (a) Refer to Table 1.
- (i) Calculate the percentage change in total revenue for the chocolate drink between January and February. [3]
  - (ii) Calculate the price elasticity of demand for the chocolate drink between January and February. [3]
- (b) Discuss whether knowing price elasticity of demand is useful to RNG in setting the price of the chocolate drink. [10]
- 2 Table 2 shows the waste levels last year for each café owned by RNG. Using this and **any other relevant data**, evaluate methods that RNG may introduce to reduce waste levels across all of its cafés. [16]
- 3 Discuss ways in which the recruitment and selection process may be improved throughout all the RNG sites. [16]
- 4 Assess the possible reasons for the differences between the budgeted and actual performance of RNG as shown in Table 4. [10]

## CAFÉ NERVOSA

Ruth and Nick Geer had been teachers in the Midlands for over 20 years. However, after spending a number of holidays along the Sussex coast they made the decision to move to Sussex permanently and set up their own business. Ruth and Nick wanted to have a business that was a real part of the community and attracted local customers as well as the many British and overseas holiday-makers. It was finally Nick who came up with the idea of a seaside café, catering for all tastes. The first Café Nervosa was opened in 1996 on the seafront in Brighton. 5

The success of the last 10 years has meant that Ruth and Nick (trading as RNG Partners) have a total of seven cafés stretching from Hastings in the east to Bognor Regis in the west. Each Café Nervosa is branded in the same way, with its shop front, product range and staff uniform identical. The business is growing at a steady rate and there are plans for three more cafés to be opened in the next two years. The major problem over the years has always been the seasonality of the market. Year round tourism in places such as Brighton and Eastbourne means these cafés are generally busy all year. However, the cafés in the three smaller resorts close for some of the winter months. 10  
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A recent development for RNG has been the introduction of a range of 'real chocolate drinks' provided by a European-wide franchise operation based in Spain. The franchisor provides each Café Nervosa with the necessary raw materials, menus, mugs and promotional literature. RNG, as the franchisee, is now able to sell a range of over 20 flavoured chocolate drinks. These have proved to be particularly popular during the winter months. The franchisor is quite happy to allow its franchisees to set their own price for the chocolate drink, within certain boundaries. Ruth and Nick are currently looking at the figures from the first six months of selling the chocolate drinks with a view to getting the pricing strategy 'right' (see Table 1). 20  
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"It's all about understanding the reaction of our customers to changes in price," said Ruth over lunch one day. "The data for the last six months will really help us to price the chocolate drink with some certainty. We have incurred unnecessary costs by constantly changing the price from month to month. It will be nice to stick to one price for the whole of the next year." 30

Nick was less sure of this. Although his background was in the creative arts, and he spent most of his time on the marketing and finance of the cafés, he was surprised to hear Ruth talk this way.

Another more pressing issue at the moment is that of waste levels. For the past two years, the waste levels have been monitored on a café by café basis. Ruth and Nick have been surprised at not only the amount of waste but also the huge variations in waste between each café (see Table 2). 35

Ruth and Nick had never given much attention to waste, as it was an accepted problem of a business selling fresh produce with unpredictable demand levels. It was only as a result of research carried out by one of their youngest and brightest café managers that the problem became apparent. 40

Vanessa Martinez has been the manager of the Eastbourne Café Nervosa for the past two and a half years. She was educated in Spain and speaks four languages fluently. She has impressed Ruth and Nick with her determination to improve the efficiency of her café and her ability to find new ways of dealing with problems. 45

During a recent visit to the Eastbourne café, Ruth discussed the improvements that Vanessa had already put in place and how they may be repeated across the other six sites. “There is no particular secret to what I have done,” said Vanessa, “I have just ensured that I give my customers what they want; isn’t that what quality is all about? Improvements have been gradual and well planned; I have not rushed into anything before giving careful consideration to all relevant factors.” 50

“Well,” replied Ruth, “I would really like to see how we can implement similar changes throughout the whole chain. It should not be that difficult to replicate what you have done here.”

Vanessa hesitated, “You must not forget that each store is different, each with its unique characteristics. However, maybe what is needed is a whole business policy – something along the lines of total quality management.” 55

“No,” replied Ruth, “I do not want to entertain such a radical and involved procedure at this stage of development of the business. I am categorically ruling TQM out for at least another five years. We need to put together some smaller, self-contained suggestions that can be implemented one at a time. These will hopefully both improve quality and reduce waste. I would like you to come and talk to Nick and me next month about what you propose we should do.” 60

Ruth left her meeting with Vanessa and drove to the Brighton-Seafront site to deal with a completely different, but equally worrying problem – recruitment. 65

During a recent Human Resource audit, Ruth was surprised to find that the labour turnover at the sites which are open all year had risen significantly over the last few years (see Table 3). At present, most new recruits are found by chance. For example, students on holiday decide to stay longer and walk into the cafés to ask for a job; friends or relations of current workers; the occasional card placed in the café window advertising a vacancy. 70

The recent experience of the Brighton-Seafront site has led to Ruth questioning the need to formalise the recruitment and selection practices at each of the sites. The Brighton-Seafront site is the largest Café Nervosa and employs four full-time members of staff as well as up to five part-time employees, depending on the time of year. In February this year, two 19-year old Australians, Jessica and Amelia, travelling around Europe during their gap year, walked into the café looking for work. As the manager was looking to recruit ready for the busier spring and summer season, he offered Jessica and Amelia part-time work until August. To begin with they were perfect employees: punctual, efficient and reliable. However, as the weeks went by their performance deteriorated. On the sunniest days they were frequently late or wanted to leave early to lie on the beach. When they were at work both women preferred to work the outdoor tables, ignoring customers inside. They constantly had assorted male ‘friends’ hanging around, making one drink last many hours and taking up tables which meant other potential customers went elsewhere. Ruth decided to meet with Jessica and Amelia to try and resolve the difficulties. 75  
80  
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Ruth got straight to the point, “I think it is best if you cease working at Café Nervosa with immediate effect. Your heart no longer seems to be in the work; you are more interested in having a good time. I have a business to run here and you are not helping. I’ll give you both a week’s pay and call it a deal.” 90

Jessica and Amelia looked at each other before Amelia spoke up. “Hang on a minute. We’ve got a contract. It may only be verbal but I know my rights. You offered us work until August. We expect *that* deal to be honoured.”

“But you are not really fulfilling your duties and responsibilities as employees,” replied Ruth. 95

Now Jessica spoke up, “What about your duties and responsibilities as an employer? For one, training. We never got any, so don’t come all high and mighty about what we’re not doing. How are we supposed to pay for the rest of our stay in England without a job? We’ll certainly spread the word around about how we have been treated – then we’ll see whether we are helping with your business or not!” 100

Unsure of her legal position, Ruth left the meeting without finding any resolution. However, she was now even more sure that the source of the problem lay in the recruitment and selection procedure.

Back home in the study that served as ‘head office’ for RNG, Nick was finalising the latest set of financial data. Although as a partnership RNG did not have to produce detailed financial reports, Nick liked to produce quarterly data including sales, costs, cash flow and budgets. The latter two sets of data were produced for the business as a whole, rather than café by café. This allowed Nick to get an overall picture of the business and assist in planning for the future. 105

Nick was currently most concerned with identifying the reasons for the failure to achieve the budgeted profit levels for the last two quarters (see Table 4). 110

**Table 1**  
Sales data for the franchised chocolate drink

Month	Sales (cups)	Average price per cup (£)
October 2005	2000	2.50
November	2400	2.15
December	2250	2.30
January 2006	2300	2.20
February	2410	2.00
March	2300	2.05

**Table 2**  
Average Waste Levels as a percentage of product turnover, by Café (2005)

	<i>Bognor Regis (BR)</i>	<i>Brighton-Central (BC)</i>	<i>Brighton-Hove (BH)</i>	<i>Brighton-Seafront (BS)</i>	<i>Eastbourne (E)</i>	<i>Hastings (H)</i>	<i>Littlehampton (L)</i>
<i>Cakes/Pastries</i>	38%	33%	12%	29%	10%	12%	22%
<i>Fruit</i>	10%	8%	6%	18%	5%	21%	9%
<i>Ice-Cream</i>	11%	8%	5%	5%	2%	6%	18%
<i>Sandwich/Panini</i>	40%	29%	19%	16%	15%	16%	33%

**Table 3**  
Labour Turnover

	Brighton-Central (BC)	Brighton-Hove (BH)	Brighton-Seafront (BS)	Eastbourne (E)
2003	38%	40%	50%	15%
2004	56%	50%	55%	15%
2005	67%	50%	60%	25%

**Table 4**  
Budget Statement for RNG – October 2005-March 2006

	<b>Budget 4<sup>th</sup> Quarter 2005</b>	<b>Actual 4<sup>th</sup> Quarter 2005</b>	<b>Budget 1<sup>st</sup> Quarter 2006</b>	<b>Actual 1<sup>st</sup> Quarter 2006</b>
<b>Turnover</b>	<b>£450,000</b>	<b>£458,960</b>	<b>£535,000</b>	<b>£520,710</b>
Direct Costs	<b>£180,000</b>	<b>£198,870</b>	<b>£220,000</b>	<b>£248,210</b>
Overheads	<b>£140,000</b>	<b>£140,000</b>	<b>£140,000</b>	<b>£160,000</b>
<b>Total Costs</b>	<b>£320,000</b>	<b>£338,870</b>	<b>£360,000</b>	<b>£408,210</b>
<b>Profit</b>	<b>£130,000</b>	<b>£120,090</b>	<b>£175,000</b>	<b>£112,500</b>



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