



ADVANCED GCE
BUSINESS STUDIES
 Business Thematic Enquiry

2879

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

Tuesday 20 January 2009
Afternoon

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read the tasks carefully and make sure that you know what you have to do before starting your report.
- Complete both tasks.
- If you use extra sheets of paper, fasten the sheets securely to the Answer Booklet.
- Do **not** write in the bar codes.

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 **90**.
- You will be awarded marks for the quality of your written communication.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

Lovering Books Ltd (LBL)

James and Mollie Lovering own a small bookshop in Oakford which has been in the family for several generations. The business has only ever been moderately successful. In the last four years, with increased competition from the other specialist bookshop in the town, and from newsagents and supermarkets, the business has barely broken even. James and Mollie have decided to turn down a not very flattering offer from their bookshop rival and are considering two options which might enable the business to survive. Their concerns are increased by the intention of their most experienced worker, Jeni Bolton, to accept a better job offer from the rival shop. Jeni is well known and popular in the town. The Loverings fear that she may take business with her. 5

The ground floor of the shop is well utilised and set out in a customer friendly way. The upstairs is a large flat with three living rooms/bedrooms which has been neglected. It is used only for stockholding purposes. The Loverings see better use of this capacity as the solution to the problem. They also realise that the conversion of this space will be an investment which will add to the value of the property. Both the following options, therefore, concentrate on the effective use of the three rooms together with kitchen and bathroom on the upper floor. 10

Option 1

The headteacher of one of the largest local secondary schools is seeking an arrangement which would mean that all textbooks and set books required by the school would be bought through LBL. Whilst this would provide a steady income, it would carry considerable stockholding and administrative costs. Profit margins on school books are not large. However, there are several other schools in the town, or within delivery distance, which might be attracted if LBL could make a success of this opportunity. James does not think this option will be financially viable unless they can minimise costs and promote themselves in such a way that other schools or colleges can be successfully targeted. Mollie thinks that this option will have the best chance of success if Jeni can be persuaded to remain with them and take on the organising and management duties associated with the option. Costs and estimated contribution for this venture are shown in Table 1 and Table 2. 15 20 25

The venture is high risk and for long term success relies on the Lovering's ability to attract other business of the same kind. It follows that the service offered to the school must be of the highest quality and that the relationship with the school will have to be well maintained. This makes the additional training of Jeni and her retention within the business crucial factors.

Table 1: Costs of conversion for the contract (£'000)

Upstairs conversion	35	
Office and stock fittings	18	
Office equipment	3	
Initial book stock	30	
Additional staff costs	18	
Other costs	6	
Total conversion costs		110
Running costs		
Office	10	
Administration	20	
Delivery	3	
Annual running costs		33

Table 2: Estimated contribution (£'000)

Contribution from the sale of books to school	40	
Contribution from the sale of books to pupils/parents	14	
Contribution from additional sales	16	
Total annual contribution		70

Option 2

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James Lovering's brother, Robin, currently runs a one man taxi service from his home. He has two taxis: one licensed to carry seven passengers and one licensed to carry four passengers. If he is busy a friend helps him out on an occasional basis. Robin is seeking to expand his business but cannot do so from his own home. LBL is considering taking over and expanding Robin's taxi business. It would be operated from the upstairs rooms of the bookshop. Robin would be offered the post of manager. There would be a need to employ two trained controllers. An attempt would be made to persuade Jeni to take on the senior of these two roles.

35

Initially, the business would operate four taxis – the two originally operated by Robin and two new taxis. New drivers would also be required to operate these taxis. There is space and garage accommodation for taxis in the area behind the shop. Table 3 shows the costs of converting the upstairs for a taxi business and Table 4 shows the estimated additional contribution for the first year.

40

Table 3: Costs of acquiring and expanding the taxi business (£'000)

Capital costs		
Upstairs conversion	35	
Office and fittings	15	
Drivers' rest room furnishing	10	
Private access for taxi office	10	
Security gate and system	8	
Two taxis	32	
Purchase of Robin's business assets	20	
Other costs	10	
Total capital costs		140
Annual running costs		
Fixed costs	14	
Wages	140	
Fuel costs	45	
Controllers	40	
Maintenance and service costs	15	
Office costs	13	
Annual running costs		267

Table 4: Estimated additional contribution from expanded business (£'000)

Private hire contracts	40	
Local authority escort contracts	30	
Airport runs	64	
Other booked business	80	
Casual hire	66	
Total estimated additional annual contribution		280

There are risks with each option since they both involve sinking more capital in development and the hiring of additional staff. James and Mollie agree that, if nothing is done, the bookshop is not likely to survive for more than two years. They do have the capital to finance either venture but it means using a large portion of their life savings. However, either option will improve the value of the business as a whole since the converted upstairs rooms could easily be sold as a flat if the business does not succeed. The real issue, therefore, is the probability that either option will achieve the level of business estimated.

Required:

Write a report for LBL advising which of the new ventures should be undertaken. In writing your report you should use the evidence given in the case. You should also use any evidence you have gathered from a study of the problems and strategies associated with diversification. The title of your report must be:

Which is the best option for LBL to adopt in an attempt to ensure survival?

Complete both tasks below:**Task 1**

Write a plan for your report in which you make clear:

- (i) the problem as you see it and the need to solve it;
- (ii) the context in which this problem must be solved;
- (iii) your objectives in your approach to the problem;
- (iv) any assumptions you make and the reasons for them.

You are advised to spend not more than **15 minutes on this task.**

[10]

Task 2

Write your report.

In it you must satisfy the criteria on which the assessment is based.

You should ensure that you:

- (i) provide terms of reference for the report;
- (ii) select appropriate evidence for this task. You should use evidence both from the case, from business theory, and from work you have done in preparation;
- (iii) present and analyse the evidence logically, in line with the objectives you set and the assumptions you made in the plan;
- (iv) consider the situation and arrive at a supported recommendation.

[80]

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