WELSH JOINT EDUCATION COMMITTEE
General Certificate of Education
Advanced Subsidiary/Advanced

CYD-BWYLLGOR ADDYSG CYMRU
Tystysgrif Addysg Gyffredinol
Uwch Gyfrannol/Uwch

322/01

BUSINESS STUDIES

BS2

P.M. MONDAY, 5 June 2006

(1 hour)

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- an 8 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **both** questions.

INFORMATION FOR CANDIDATES

Mark allocations are shown in brackets.

Candidates will be assessed on their quality of written communication i.e. the structure and presentation of ideas; the clarity of expression; grammar, punctuation and spelling. Up to three marks will be awarded for written communication.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

1. Study the information below and then answer the questions that follow.

Kellogg's – *the* breakfast brand

Quantitative market research tells us that over 40% of UK households are likely to have a packet of Kellogg's Corn Flakes. It is the country's number one breakfast cereal, holding 11% by volume of the market, with its closest rival, Weetabix, holding 9%.

From the outset W.W. Kellogg, the founder of the company, fully realised the importance of promoting his products and today, 100 years later, the company still sees marketing as vital to its continued success.

The company is always looking to launch innovative products onto the market: eleven of the top twenty brands in the UK breakfast cereal market are Kellogg's products! When launching new products, the company has found that a **penetration pricing** strategy has often been the most effective.

Adapted: Superbrands, Editor Marcel Knobil

(a) What is the meaning of:

(i) *quantitative market research;* [2]

(ii) *penetration pricing?* [2]

(b) Why might penetration pricing be an appropriate strategy for Kellogg's to use when launching a new breakfast cereal? [4]

(c) Explain ways in which Kellogg's could effectively promote a new breakfast cereal. [6]

(d) Discuss the view that marketing is as beneficial to consumers as it is to businesses. [6]

BLANK PAGE

2. Study the information below and then answer the questions that follow.

Casey's Ltd.

John Casey runs a family-owned DIY company, employing two staff, both of whom have been with him since he and his sister inherited the business 10 years ago. Since a branch of B&Q opened up some eight miles away, business has dipped alarmingly. For this reason John is keen to finalise negotiations to supply a local building company with all its paint requirements for the next three years. This will require him to hold extra stock, but will also enable him to take advantage of a cash discount of 10% from his own paint suppliers, as long as he maintains regular monthly payments. In order to meet the contract requirements he will need to install new storage equipment which he estimates will cost approximately £5 000 – money which he hopes to borrow from the bank.

John regards the investment as worthwhile because he estimates that the contract will increase his annual turnover by £20 000. The building firm will undertake to purchase all its paint from him, at a fixed price, over the next three years. It will also settle its account every six months, at the end of June and December.

John has requested that his sister construct a cash flow forecast based on his plans for the next six months, so that he can use it in the loan negotiations with his bank manager. Currently Casey's has a £2 500 overdraft limit with the bank.

Cash Flow Forecast for Casey's Ltd: January to June 2006.

£s	JAN	FEB	MARCH	APRIL	MAY	JUNE
Receipts						
Cash sales	6 500	6 500	7 500	8 500	9 500	8 500
Contract sales						10 000
Bank loan	5 000					
Total receipts	11 500	6 500	7 500	8 500	9 500	18 500
Payments						
Install new storage equipment	5 000					
Stock purchases	3 500	3 500	4 000	4 500	5 000	4 500
Wages	2 000	2 000	2 000	2 400	2 400	2 400
Insurance		450				
Electricity	150			150		
Telephone			270			270
Advertising	30	30	30	30	30	30
Loan repayments	200	200	200	200	200	200
Drawings	2 300	2 300	2 300	2 500	2 500	2 500
Total payments	13 180	8 480	8 800	9 780	10 130	9 900
Net Cash Flow	(1 680)	(1 980)	(1 300)	(1 280)	(630)	8 600
Opening Balance	2 700	1 020	(i)	(2 260)	(3 540)	(4 170)
Closing Balance	1 020	(960)	(2 260)	(3 540)	(ii)	4 430

(a) Identify **two** external parties who will want to examine the accounts of a company and explain why they may wish to do so. [6]

(b) Calculate the following values in the cash flow forecast:

(i) opening balance for March; [1]

(ii) closing balance for May. [1]

(Write your answers in the answer book.)

(c) On the basis of the cash flow forecast **alone**, comment on the view that the bank would be unlikely to grant the loan of £5 000 to Casey's Ltd. [4]

(d) Suggest ways in which Casey's Ltd could improve its cash flow situation and assess any adverse consequences your suggestions might have. [8]