

322/01

BUSINESS STUDIES

BS2

P.M. MONDAY, 4 June 2007

(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.

Bisto is the nation's favourite gravy

Nearly one hundred years after its creation in 1908 the Bisto brand is still the strongest in the UK gravy market (Table 1), with a 100% distribution in UK retail stores. Ninety-nine years is a long time for any product to survive, and most start to decline long before that, as illustrated in the 'classic' shape of the product life cycle in Figure 1.

Bisto is in the maturity stage of its product life cycle, but there is now also a range of other Bisto-related products (Table 2). In Boston Matrix terminology, Gravy Granules is certainly a 'Cash Cow', but as Ian Greengrass, Head of Marketing points out... 'The slogan, *Bisto means gravy*', still has meaning to a very large number of consumers but, nonetheless, we still need to keep ahead of the game by understanding our customers needs and making sure that the brand name remains relevant to the meals people are eating today'. Bisto has recently launched a multi-million pound campaign entitled 'Aah! Night' to inspire customers to go home at least one night a week and share a home-cooked meal with family and friends.

Table 1

Gravy market share, UK 2006	
Bisto	62%
Oxo	7%
Supermarket own brands	25%
Others	6%

Figure 1

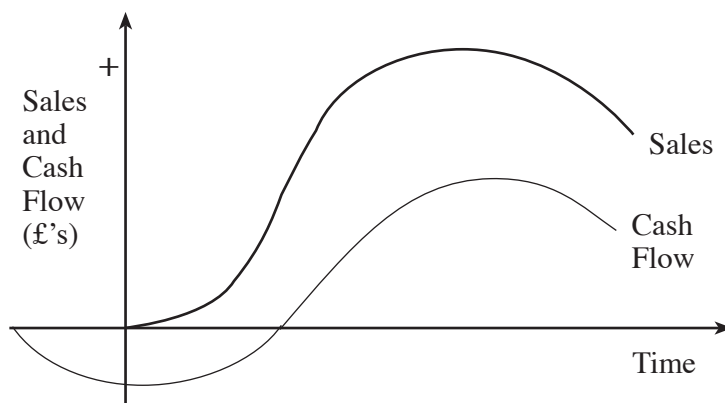


Table 2

The Expansion of the Bisto Product Range	
1908	Original gravy powder launched
1979	Gravy granules
1984	Chicken and onion flavour granules
1991	New 'fuller flavour' granules in glass jars
1993	New range - Bisto Best
2004	New gravy sauces - Roasted Onion and Ale, Rosemary and Red Wine, Black Peppercorn and Roasted Garlic
2005	Chilled and frozen products - Bisto Roast Potatoes, Yorkshire Puddings, Frozen Mashed Topped Pies

- (a) With reference to Figure 1, explain the relationship between cash flow and the various stages of the product life cycle. [6]
- (b) Explain how the Boston Matrix might help Bisto's marketing team manage its product portfolio. [8]
- (c) Given that the name Bisto means gravy to a very large number of consumers, to what extent is the multi million pound campaign necessary? [6]

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

CushionSoft Furnishings plc

Having been appointed three months ago as Managing Director at CushionSoft Furnishings plc, Desmond Rogers has been reviewing all parts of the business. At a recent board meeting he revealed his findings. 'As far as the production of our furniture is concerned I am very impressed and I can find no areas where savings can be found. However, I do feel that we are spending too much on marketing and we are overstaffed in some areas, especially in the sales force. In addition, the business is too dependent on external sources of finance; with an alarming £18 million on bank interest and charges, a long-term objective must be to reduce our borrowing. At present we are distributing too much of our profit to our shareholders in dividends. As some of our factories will soon need major investment spending, we will need to increase the amount of retained profit. I have had our Accounts Department draw up a revised Projected Profit and Loss Account and, having examined this closely, I am proposing the following:

- to make efficiency savings leading to a 10% cut in our salary bill;
- to reduce marketing expenditure by £8 million.'

	Projected Profit and Loss Account 01/01/07 - 31/12/07		Revised, Projected Profit and Loss Account 01/01/07 - 31/12/07	
	£ million	£ million	£ million	£ million
Sales Revenue		500		500
Opening Stock	80		80	
Purchases	170		170	
Less Closing Stock	70		70	
Cost of Sales		180		180
Gross Profit		320		320
Expenses/Overheads				
Salaries	120		(i)	
Marketing	50		(ii)	
Administration	40			
Rates	20			
Bank interest and charges	18			
Total Expenses/Overheads		248		(iii)
Net Profit before tax		72		(iv)
Corporation tax at 25%		18		(v)
Net Profit after tax		54		(vi)

- (a) (i) Give **two** advantages of using retained profit as a source of finance. [2]
- (ii) Describe the features of **two** external sources of finance, **other than** a bank loan, which may be available to CushionSoft Furnishings plc. [4]
- (b) Calculate the following values in the revised, Projected Profit and Loss Account in Table 1, following Desmond's proposal:
- (i) salaries; [1]
- (ii) marketing; [1]
- (iii) total expenses/overheads; [1]
- (iv) net profit before tax; [1]
- (v) corporation tax; [1]
- (vi) net profit after tax. [1]
- (Write your answers in the answer book.)*
- (c) Consider the possible impact on CushionSoft Furnishings plc if all of Desmond Roger's proposed changes are implemented. [8]