

General Certificate of Education
June 2003
Advanced Level Examination



BUSINESS STUDIES
Unit 4

BUS4

Wednesday 11 June 2003 Morning Session

In addition to this paper you will require:

- a 12-page answer book;
 - Insert for use when answering question 2(a) (enclosed).
- You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS4.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.
- Fill in the boxes at the top of the Insert. Make sure that you attach the Insert to your answer book.

Information

- The maximum mark for this paper is 84.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.
- Up to 4 marks will be awarded for the quality of your written communication.

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Read the Case Study and answer **all** the questions that follow.

A new contract for Topstar?

“We would be mad to accept this order. Why sell the Excelsior washing machine, our most popular product, below cost? I know that we have been pushing for this Allport discount store order for several months but I can’t see the point in gaining it at a loss making price.”

Leroy Miller is Chief Executive at Topstar, a manufacturer of washing machines and fridges, employing a total of 4000 staff. Currently, most of the firm’s sales are made through department stores and specialist electrical retailers. They value Topstar’s quality image, even though the firm’s products do not have the most advanced technical features.

Leroy’s angry reaction to the Marketing Director’s support for a long-term contract with the Allport store was shared by some of his colleagues.

A Board meeting was considering the precise details of the Allport contract. The Marketing Director insisted that the contract offered a valuable source of revenue. It should also help the firm get closer to its marketing plan objective of 10 % market share in ‘white goods’ – consumer durable products for the kitchen. The contract represented the first order from the discount segment of the market. “Our current marketing plan refers to extending sales of our products to a wider mass market. Our market research and sales forecasts suggest that the growth of the discount sector will help drive us towards achieving our business aim of higher returns for shareholders.” Bill Bryan, the Finance Director, was also keen for the contract to go ahead. He declared at the meeting that: “According to my costing statements, there are positive financial reasons for accepting this order. When the sales forecasts for 2004 are completed, it is likely that they will show that spare capacity will exist to fulfil the Allport order. There are also important non-financial benefits that could flow from it. I would like to go through the cost figures with you.” He passed around the 2002 cost and output data (see **Appendix A**) for the Excelsior.

The Allport contract would be for 1000 Excelsior machines a month, initially for three years. The store would pay £200 per machine, £50 less than other retailers and £150 less than the normal retail price. The contract requires the machines to be sprayed in a variety of colours to match modern kitchen designs. These colour variations would require the purchase of an automated spraying booth that could spray in up to ten different colours. This would cost £360 000 and its manufacturers claim a life expectancy of three years.

The Board members were still not in agreement even after hearing the accountancy lesson from Bill Bryan. For example, the Research and Development Director insisted that: “I am convinced that the future for this company rests with product and process innovation – not selling existing products at rock bottom prices. We made a mistake in trying to copy the Daxon ‘counter rotating’ drum machine two years ago but at least we were trying to match the best in the industry. My engineers are working on a vortex machine which could revolutionise the way clothes are spun and dried in machines – but with our budget we cannot even afford to produce a full-sized working model.”

Other directors, including the Human Resources Manager, Shivani Khan, were concerned about the penalty clauses in the Allport contract. Failure to meet delivery dates could lead to substantial “fines”. Recently, industrial relations at the factory, had been troubled. There had been frequent communication breakdowns within the factory, with rumours that existing excess capacity could lead to a loss of many jobs. Shivani was surprised that informal channels seemed to operate much more effectively than her rather poorly attended monthly ‘Topstar Together’ information briefings. In addition, there was considerable unrest amongst some of the workforce about the current wage negotiations. Only one union, the Electrical Engineering Union (EEU), was prepared to sign a

no-strike agreement in return for a substantial three year pay settlement. The directors were keen to discuss with the staff the possibility of a single union deal at the plant, but Shivani was concerned that the workers who belonged to different unions might object. “I would be happier agreeing to the Allport contract if we had settled these points of disagreement with our workers first,” she said. 45

The Board agreed to postpone the decision for another week. The Marketing Director would e-mail all of the members before then with the latest sales data (see **Appendix B**). The data would be analysed to make a sales forecast for 2004. The directors knew that further delay could be a mistake; it was well known in the industry that one of Topstar’s leading competitors, Hooper, was also in discussion with Allport. 50

APPENDIX A

Excelsior washing machine cost and output data – 2002	
Annual production capacity (units)	60 000
Output	47 000
Material cost per unit	£100
Direct labour cost per unit	£50
Factory and administration overheads per unit (at 2002 output)	£60
2002 average selling price to retailers	£250

APPENDIX B

Sales data and moving average trend data for the Excelsior washing machine (excluding the Allport contract)			
Year	Quarter	Sales (units)	Quarterly moving average trend
2000	3	7 000	
	4	8 000	
2001	1	10 000	9 125
	2	11 000	9 375
	3	8 000	9 750
	4	9 000	10 375
2002	1	12 000	11 000
	2	14 000	11 500
	3	10 000	12 000
	4	11 000	12 375
2003	1	14 000	
	2	15 000	

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APPENDIX C

Research and Development expenditure and market share UK white goods market 2002		
	R and D spend £m	Market share %
Daxon	18	33
Hooper	12	18
Busch	15	17
Trisonic	10	15
Topstar	5	7
Others	Not available	10

- 1 (a) Examine how barriers to communication might be reduced within Topstar. *(8 marks)*
- (b) Discuss the likely impact on this business of a single union agreement. *(12 marks)*
- 2 (a) Using **Appendix B**, plot the trend data on the Insert. Use your graph to extrapolate the sales trend to 2004 Quarter 2. (Exclude the impact of the Allport contract.) *(6 marks)*
- (b) Evaluate the importance of sales forecasting to the effectiveness of Topstar's marketing planning. *(14 marks)*
- 3 (a) Calculate the additional annual profit that Topstar would gain from the Allport order. *(6 marks)*
- (b) Use your result from 3(a) and any other relevant data to make and justify a recommendation to the Board on whether this order should be accepted. *(14 marks)*
- 4 To what extent will increasing the current level of Research and Development expenditure (**Appendix C**) ensure Topstar's future success? *(20 marks)*

END OF QUESTIONS

Surname					Other Names					
Centre Number						Candidate Number				
Candidate Signature										

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Insert for use with Question 2 (a)

Fill in the boxes at the top of this page.

Fasten this sheet securely to your answer book.

TURN OVER FOR GRAPH

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EXCELSIOR SALES