

General Certificate of Education
January 2004
Advanced Level Examination



BUSINESS STUDIES
Unit 5

BU5W

Tuesday 20 January 2004 Afternoon Session

In addition to this paper you will require:
a 12-page answer book.
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 BU5W.
- Answer the **compulsory** question in **Section A** and **one** question from **Section B**.
- Do all rough work in the answer book. Cross through any work you do not want marked.

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.

BU5W

SECTION A

Answer this question. You should spend up to 50 minutes on this Section.

1

Total for this question: 40 marks

Franks Ltd

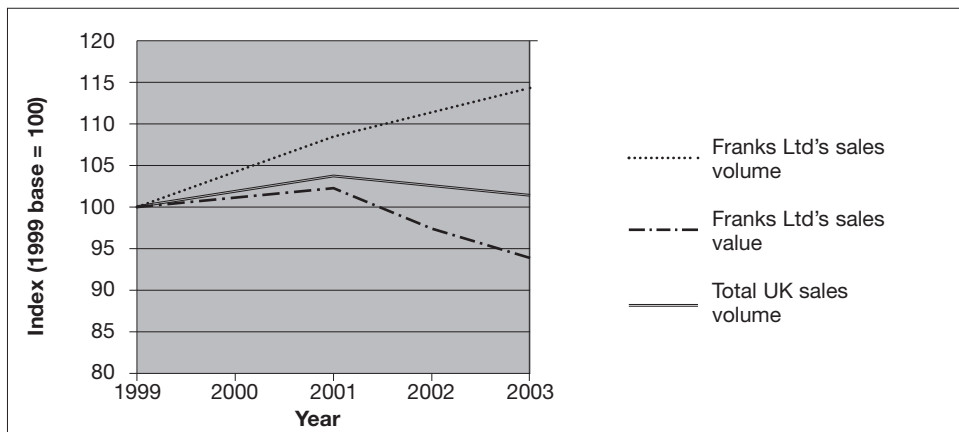
Franks Ltd is a British shoe producer that sells its products both in the UK and abroad. The company is considering developing a new range of casual footwear and establishing additional production facilities for the new products. The range would be launched this year and priced at the higher end of the market. It would target the older buyer and be promoted under the existing brand name. This plan is partly a reaction to increasing imports in the UK shoe market from low-wage economies overseas.

You have been asked as an independent consultant to write a report for the Board of Directors analysing the case for and against the plan and recommending whether or not to go ahead with the new range of shoes. (2 marks are included for appropriate report format.)

Appendix A: Existing sales of Franks Ltd and the UK shoe market as a whole

Age of buyers	Franks Ltd sales 2003 % (volume of sales)	UK shoe market 2003 % (volume of sales)	Forecast UK market growth over the period 2004-2010 % (volume of sales)
under 15	0	18	- 3
15-25	8	13	+ 5
26-35	22	13	- 9
36-55	32	29	+ 4
Over 55	38	27	+ 9
<i>Total</i>	<i>100</i>	<i>100</i>	
Type of shoe			
Sports	15	30	+ 1
Casual	5	18	+ 6
Formal	65	17	- 14
Other (e.g. boots)	15	35	+ 10
<i>Total</i>	<i>100</i>	<i>100</i>	

Appendix B: Trend data for Franks Ltd and the total UK shoe market



Appendix C: Franks Ltd's personnel and financial data 2003 and local and national unemployment rates 2003

Total number of employees	270
Labour turnover	2%
Local unemployment rates	2.1%
National unemployment rates	3.2%
Average training period for non-skilled recruits	7 months
Operating profit (loss)	(£40 000)
Capital employed	£4.8m
Gearing	6%
Company's cost of borrowing	10%

Appendix D: Forecast data for the new product range 2004–2006

Initial investment	£300 000
Break-even output	20 000 pairs p.a.
Estimated sales	22 000 pairs p.a.
Capacity of new facilities	23 000 pairs p.a.
Average rate of return	16% p.a.
Income elasticity of demand	+1.2
Price elasticity of demand	– 0.9
Stock turnover	8
Labour productivity for new range compared with labour productivity for existing products	– 20%
Number of additional staff required	10

Appendix E: Economic and shoe industry data

Forecast changes for the period between 2004 and 2010

UK real GDP	+15%
Value of the £ in terms of US dollars	+ 9%
Imported shoes as a % of total market sales volume	+ 5% (from 90% to 95%)
UK shoe industry real wages (average)	+11%
Average real wages for overseas competitors	+ 9%

TURN OVER FOR SECTION B

Turn over ►

SECTION B

Answer **one** question from this Section.

- 2 The Fantom brothers have built up a successful bakery in their home town over the past fifteen years. They have recently been approached by one of their customers, a major supermarket chain, that wants to buy their company. Discuss the factors that might determine whether or not they sell the business. *(40 marks)*

- 3 Marple plc produces luxury chocolates and sells these through retailers and its own outlets. After three years of poor profits and a falling share price, the company's Board of Directors has appointed a new Chief Executive to turn the business around. To what extent can a new Chief Executive influence the success of a business such as Marple plc? *(40 marks)*

- 4 The buyer for a major UK fashion company has been offered a range of fabrics by a Far Eastern manufacturer at a price that is less than that paid to existing suppliers. The new supplier is known to pay low wages and to employ people from the age of 14 upwards. Should the fashion buyer switch suppliers or not? Justify your answer. *(40 marks)*

- 5 The directors of Pito plc, a growing chain of pizza restaurants, are coming under increasing pressure from their major shareholders to improve the firm's short-term profits. Discuss the possible consequences of this for the business. *(40 marks)*

END OF QUESTIONS