

General Certificate of Education
June 2004
Advanced Level Examination



BUSINESS STUDIES
Unit 4

BUS4

Thursday 17 June 2004 Morning 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 BUS4.
- Answer **all** questions.
- 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.

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

A new direction for Wayside Restaurants Ltd

“There are just too many competitors in the fast food sector, and negative publicity on health issues hasn’t helped either,” said Charlie Ng, the Chief Executive of Wayside Restaurants Ltd, at a recent Board meeting. “I’m still convinced that the Wayside formula of traditional British food sold in a fast food environment is a winning one. But, for the tenth consecutive month, sales have failed to rise and are below budget. I think we need to review our strategy and investigate new restaurant concepts with a distinctive theme.” 5

A few weeks later, the Board met to consider a plan from the Marketing Director, Dave Heels, to open a limited number of prestige restaurants with exclusive riverside locations. These could be opened in cities where average incomes are high and the business sector is expanding rapidly. His proposal was to focus mainly on satisfying the growing market for business “entertaining”. This market includes business lunches and dinners for firms keen to impress corporate clients. Recently announced tax allowances for business entertaining has encouraged an increase in spending by firms on high quality hospitality for their UK and overseas customers. The market is currently dominated by large hotel chains but Dave was sure that a smaller operation with distinctive menus, outstanding service and a “personal touch” could be successful. 10 15

Dave presented a simple outline of his proposal to the other directors.

Corporate objective	To maximise returns to shareholders.
Marketing objective	To establish a new restaurant concept aimed at the business entertainment sector of the market.
Secondary market research	Market intelligence reports indicate growth in spending on restaurant meals and a 35% rise in business entertainment spending over two years.
Hypothesis	That a new “Riverside” themed restaurant will achieve break-even within six months.
Testing	Monitor performance of first restaurant before deciding on other sites.

“By using a different name for these restaurants, the consumers we are aiming for might not associate them with the “Wayside” concept. Clearly, a marketing budget will be essential to establish the distinctive features but I realise that finances will be stretched and that paying for good locations is probably more important,” Dave remarked. 20

The directors agreed to take the “Riverside” idea further. The Operations Manager, Phil Bell, spent most of the next three weeks researching suitable sites for the first restaurant. He was aware that costs would be greatly influenced by location but higher meal prices could also be charged in some regions. He narrowed the choice down to two sites and forecasts were made on likely returns from each of them (see **Appendix A**). 25

Wayside Restaurants Ltd had just appointed a new Human Resources Director, Gowri Shah. She believed that the current human resources strategy, of paying low wages and supervising workers closely, might not be appropriate for the new venture. The high labour turnover in the existing Wayside restaurants supported this view. “We need to recruit quality staff for the Riverside restaurants. Then we must look for ways of developing them. Encouraging staff participation and team spirit in these up-market restaurants could be vital to their success,” Gowri told the Board. 30

One of Gowri's main strengths is her excellent understanding of employment legislation. She has no intention of making the same mistakes as her predecessor. He had spent many days in employment tribunals and in resolving disputes with trade unions because of his failure to recognise the impact of employment laws on the company. 35

The directors are keen to make rapid progress on opening the first Riverside restaurant. Phil Bell believes that if the City A site is chosen, the first customers could be served within 16 weeks. The City B site is less straightforward. Planning permission from the Council is not guaranteed and the proposed building needs substantial repairs. As this new project is much larger than any previous development for the company, Phil has started to carry out a critical path analysis (Appendix B) to support his view that the City B restaurant can be opened in 29 weeks. 40

Finance, he realises, will be a problem. Private investors had been dismayed by the recent sales figures but appreciated the directors' determination to maintain dividends. Cash is short and the new business project will require high levels of working capital, as business clients will expect generous credit terms. The company's accountant has suggested to the Chief Executive how the accounts (Appendix C) might be "window dressed" to make them appear more favourable to shareholders. The investors might be impressed by a better liquidity position and higher declared profits. Perhaps the depreciation rates currently being used could be adjusted? However, even if the more favourable accounts are produced, they still might not convince the shareholders to back the new project. In this case, long-term borrowing may be the only other option. 50

Appendix A: Forecast investment appraisal and other data for the two proposed sites

	City A	City B
Payback period	3 years	2.5 years
Net present value (first 5 years)	£0.5m	£1.0m
Initial investment required	£2m	£3m
Current numbers of catering staff registered unemployed	250	150
Number of businesses employing over 200 staff	65	110

Appendix B: Schedule of activities and durations for City B restaurant project

Activity	Preceding activities	Duration (in weeks)
A: plan, test and print menus	–	7
B: purchase site and gain planning permissions	–	6
C: repairs to building	B	15
D: staff recruitment and training	B	12
E: plan promotion and prepare advertisements	B	9
F: fit kitchen equipment	C	4
G: promotion campaign prior to opening	A, D, E, F	3
H: test all systems prior to opening	A, D, E, F	2

TURN OVER FOR APPENDIX C AND QUESTIONS

Turn over ►

Appendix C: Extract from Wayside Restaurant Ltd Accounts: 2002–2003 (end of financial years)

	2002	2003
No. of shares issued	2m	2m
Total dividends	£1m	£1m
Net profit	£4m	£2m
Cash	£50 000	£20 000
Fixed assets	£30m	£35m
Capital employed	£32m	£38m
Long-term loans	£16m	£21m

- 1 (a) Analyse how the new Human Resources Director might encourage participation by the employees appointed to the “Riverside” restaurants. *(10 marks)*
- (b) Examine the possible impact of employment legislation on Wayside Restaurants Ltd. *(10 marks)*
- 2 (a) (i) Refer to **Appendix B**. Draw a network diagram for the City B restaurant project and calculate the length of the critical path. *(6 marks)*
- (ii) Briefly assess whether the Operations Manager is right to be confident that the project could be completed in 29 weeks. *(4 marks)*
- (b) With reference to **Appendix A** and analysing any other relevant information, make and justify a recommendation for the location of the first “Riverside” restaurant. *(10 marks)*
- 3 Discuss the most important features of a suitable marketing strategy for the “Riverside” restaurants when entering the market for business entertaining. *(20 marks)*
- 4 (a) Consider whether the Chief Executive should allow the use of “window dressing” to make the accounts appear more favourable (lines 45–47). *(10 marks)*
- (b) Discuss whether the proposed expansion should be financed from long-term borrowing. *(10 marks)*

END OF QUESTIONS