

General Certificate of Education
June 2005
Advanced Level Examination



BUSINESS STUDIES
Unit 4

BUS4

Thursday 16 June 2005 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.

KEEPING AFLOAT

Cruise Line plc had lost touch with its market. The company was renowned for its luxury cruises and relied on its good name to sell holidays. For many years this had been enough. A paternalistic leadership style discouraged change and had led to a hierarchical organisational structure that was highly complex. The company had not responded to changes in the business environment and, following poor trading figures, six directors resigned.

The company's new Chief Executive, Tina Weston, summarised the problems that *Cruise Line plc* faced:

- a market which was not growing and customers aged mainly over 50;
- more competition from other holiday companies, especially those offering cheap long-haul flights;
- a relatively old workforce with little experience of delegation or using authority;
- a steadily declining financial position along with tougher competition from rivals such as Cunard.

Cruise Line plc's new Operations Director, Eoin Marshall, emphasised how the company had fallen behind. "Cunard has launched two new liners recently. These ships are enormous, have the latest facilities and technology and are well designed. They offer quality accommodation to large numbers of passengers. Cunard can take advantage of economies of scale."

In later meetings, the directors agreed that increasing market share should become the company's major objective. They also agreed on extensive market research to guide *Cruise Line plc* on its future strategy. Tina was convinced that, in the circumstances, a market-led approach to marketing was essential.

A group of *Cruise Line plc's* directors has been working on the company's new strategy and is about to reveal it at a full Board meeting.

The Explorer Project

Tina announced that a market research company had been hired to discover consumers' views about the company and the types of cruises that they wanted. The findings (shown below) were useful. The market research company tested several ideas and the "Explorer" project developed from this.

The findings of the market research company are shown below.

	Age ranges				
	Under 25	25–35	36–45	46–55	Over 55
Percentage recognising <i>Cruise Line plc's</i> name	12	16	27	44	58
Percentage considering cruise holiday	5	7	14	21	29
Percentage who would consider an "Explorer" holiday	19	11	12	26	19

Eoin Marshall explained the idea. "Explorer is a new type of cruise liner for those who want activity holidays. It will be a smaller ship than our present ones; initially, we plan to build two to run alongside our existing ships. Holidays aboard the Explorer ships will be active and exciting." He explained that Explorer would provide a base for climbing and walking holidays and for water sports. *Cruise Line plc's* staff would be involved in planning and managing the activities.

"Passengers will spend much of the day away from the ship and the Explorer will appeal to all ages. At night they can enjoy high quality food and entertainment. We hope to build on our good reputation, but we need to move quickly if these ships are to be in service by April 2007," he concluded.

The implications of “Explorer”

The new cruise liners would be relatively small ships, designed to make effective use of the space available. The design features of other modern liners would be copied wherever possible to minimise costs. Despite criticism, Eoin justified this approach by saying that it was “much cheaper than researching new ways of utilising space on the ships” and that it would speed the process of building the new ships.

The Marketing Director had been busy in the weeks leading up to this meeting. He had analysed the market research data and had drafted a marketing plan, incorporating the company’s new objectives. He was enthusiastic and was convinced that the success of this project depended upon a properly developed marketing plan. Tina was an important ally: “Increasing our market share by 20% over the next five years requires co-ordinated planning by all parts of the business. Developing a marketing plan for Explorer has been difficult, but it helps us to understand the market.”

Eoin Marshall argued that the Explorer project should reduce operating costs in the long term. “Using the latest technology, we will be able to provide high quality service for our customers with lower staffing levels than on our other ships.” (See **Appendix A.**) The Explorer ships would use a mix of existing staff and new employees. The directors had decided to use staff in teams on the ships because well-motivated staff are important on cruise ships. Teams would have authority to take decisions, especially to maintain high quality customer service, though this would represent a significant change in working practices for staff. One director commented that the company’s staff would see much change over the next year or two and wondered whether labour turnover might be higher than forecast.

Finance appeared to be a problem. The company’s weak trading performance in recent years meant that the Finance Director felt that the plans were ambitious, given that the company’s cash position was poor. The pressures of an investment of this size might be too great, especially as it was likely that the company would have to invest heavily in recruitment and training. He said that the investment would not generate any cash inflows for two years and proposed a leasing deal as an alternative. He spoke strongly against Tina’s proposal to raise 75% of the capital needed for the Explorer project through long-term loans, with the remaining £25 million taken from working capital.

Cruise Line plc’s Board meeting continued late into the evening. Everyone could see that a lot was at stake.

APPENDIX A – Personnel Performance Data for *Cruise Line plc*

	Existing ships	Explorer (forecasts)
Maximum productivity, assuming ships are full (passengers per crew member)	7.1	12.4
Average labour force	400	280
Number of employees leaving during year	88	98
Average annual pay per crew member (£s)	11 500	12 750

APPENDIX B – Balance Sheet and Profit and Loss Account

CRUISE LINE PLC – SUMMARISED FINANCIAL ACCOUNTS (Year ending 31/03/2005)	
Balance Sheet	
	£m
Fixed assets	160
Stock	12
Debtors	20
Cash	18
Current liabilities	60
Net current assets	(10)
Assets Employed	150
Long-term loans	50
Shareholders' funds	100
Capital Employed	150
Profit & Loss Account	
	£m
Sales turnover	52
Gross profit	28
Operating profit	10

APPENDIX C – Explorer Project's Financial Forecasts

Investment required: £100 million
Forecast average profit per year over the project's lifetime: £12 million
Payback period: 8 years 2 months

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- 1 (a) Examine why Tina supported the idea of a market-led approach to the company's marketing. (8 marks)
- (b) Assuming that the company decides to go ahead with the Explorer, discuss the case for developing a marketing plan for the project. (12 marks)
- 2 (a) (i) Calculate the expected change in labour turnover between the existing workforce and the Explorer workforce (see **Appendix A**). (4 marks)
- (ii) Comment on whether *Cruise Line plc's* managers should be worried about the forecast labour turnover for the Explorer project. (6 marks)
- (b) Discuss the case for and against the use of team working on the Explorer ships. (10 marks)
- 3 (a) *Cruise Line plc* planned to raise 75% of the capital required for Explorer through long-term loans. Select and calculate **two** ratios and assess whether this was a good decision. (8 marks)
- (b) Using all the financial information available to you, evaluate whether the Finance Director was right to oppose the Explorer project. (12 marks)
- 4 (a) Analyse the benefits that *Cruise Line plc* might receive if Critical Path Analysis is used to manage the Explorer project in the period until the ships are launched in April 2007. (8 marks)
- (b) Assess the case for *Cruise Line plc* copying other companies' ship designs rather than investing in researching and developing its own designs for the Explorer project. (12 marks)

END OF QUESTIONS

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