

General Certificate of Education
June 2007
Advanced Level Examination



BUSINESS STUDIES
Unit 5

BU5W

Thursday 14 June 2007 9.00 am to 10.30 am

For this paper you must have:

- 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 to be marked.

Information

- The maximum mark for this paper is 84.
Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.

SECTION A

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

Total for this question: 40 marks

1

Ashton Hotels

Ashton Ltd is a family owned business operating three luxury hotels located in historic English cities. All of the hotels have a similar number of rooms and comparable facilities including a restaurant, bar and room service. The business was set up by Mr and Mrs Ashton in 1966 but over the past few years they have become less interested in the company and have let the managers of the individual hotels make most of the decisions. Mr and Mrs Ashton finally decided to hand over the running of the business at the end of last year and their daughter Hannah has now taken over as Managing Director. Hannah had previously been a highly successful Marketing Director for a multinational bank and had worked in several European countries; she now wanted a new challenge. Hannah is determined to turn the business around and her objective is to achieve a return on capital of 15% or more within five years.

You are a Management Consultant hired by Hannah. With reference to the appendices included on pages 4 and 5, analyse the main strengths and weaknesses of Ashton Ltd's position. Based on this analysis, write a report to Hannah recommending the actions she should take to achieve her objective. (2 marks are included for appropriate report format)

Turn over for the appendices to Question 1

Turn over ►

Appendix A: Data for Ashton Ltd (year ending 31 May 2007)

Location	Bath	Cambridge	Oxford
Hotel name	The Bath House	Varsity	The Spires
Labour turnover	200%	150%	60%
Written customer complaints	400	52	15
Number of stars awarded by 'The Great UK Hotel Guide' (minimum 0; maximum 5)*	Three	Four	Four

*Assessed two years ago when The Bath House lost one star due to, "disappointing quality of furnishings and food, and poor customer service". Next assessment: 2010.

Appendix B: Extracts from Ashton Ltd's accounts published 31 May 2007

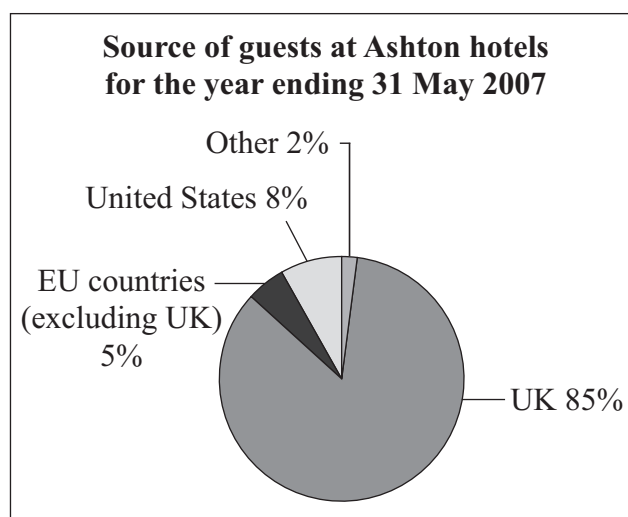
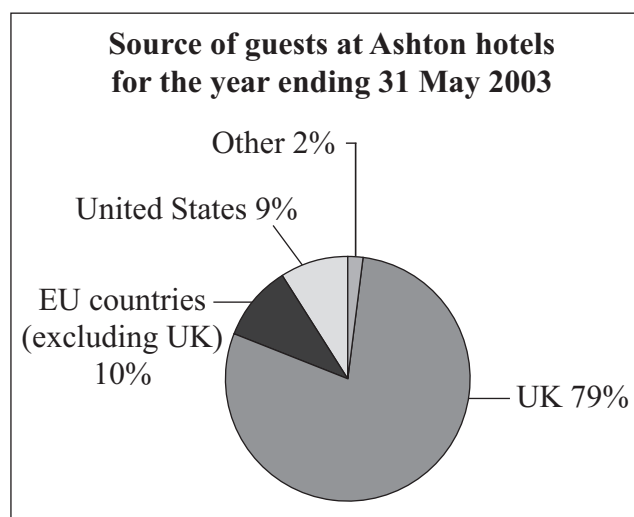
Current assets	£200 000
Current liabilities	£100 000
Gearing	10%
Turnover last financial year	£6 000 000
Net profit last financial year	(£20 000)*
Dividends last financial year	£22 000
Capital employed	£10 000 000
Capital expenditure on refurbishments last financial year	£21 000

*The profit or loss of each individual hotel is not calculated by Ashton Ltd.

Appendix C: Room and guest data for Ashton Ltd (year ending 31 May)

	2003	2007
Average annual room occupancy	47%	58%*
Average room occupancy (June to September)	60%	70%
Average room rate per night	£160	£120
Average additional spending per guest per day (eg. food and drink)	£35	£15
Percentage of repeat guests	33%	22%

*UK industry average annual room occupancy for year ending 31 May 2007 = 60%.



Appendix D: Economic and tourism forecasts (produced by Hannah Ashton)

	2008	2010
Average UK interest rate	4.75%	4.50%
Average value of the £ in American dollars	\$1.89	\$1.94
Average value of the £ in euros	1.6 euros	1.4 euros
Average real GDP growth per annum within European Union countries (excluding UK)	1.9%	2.4%
Index of number of foreign tourists visiting the UK	100 (base year)	120
Proportion of foreign tourists to the UK coming from other European Union countries	51%	55%

Appendix E: Management and staffing information for Ashton Ltd as at 31 May 2007

Hotel managers' remuneration (Scheme introduced in 2003)	Basic salary of £22 000 per annum plus bonus up to £18 000 based on occupancy rates.
Training, setting staff pay rates (excluding managers) and purchase of supplies	Undertaken separately by each hotel
Proportion of permanent full-time staff to temporary and part-time staff	75% : 25%*

*Estimated UK industry average is 55% : 45%.

Appendix F: Marketing information for Ashton Ltd as at 31 May 2007

Hannah's estimate of income elasticity of demand	+2
Combined marketing expenditure budget for the three hotels last year	£25 000
Variance for marketing expenditure budget last year	£4 000 favourable
Breakdown of marketing spending last year in terms of the target region to attract guests (UK : other EU : United States)	71% : 4% : 25%

Turn over for the next section

Turn over ►

SECTION B

Answer **one** question from this section.

- 2 The world's largest mining company, BHP Billiton, recently announced record profits of over £5 billion due, in part, to the high market price of metals such as copper and aluminium. At the same time, employees at its largest copper mine, which is in Chile, were on strike demanding a rise of 8% in basic pay and a bonus of £10 000 each. To what extent should BHP Billiton accept these demands? *(40 marks)*
- 3 The coffee retail chain, Starbucks, has achieved an average annual sales growth of over 20% in recent years. It now has over 10 000 outlets and operates in nearly 40 countries. Should the directors of Starbucks aim to maintain this fast rate of growth in the future? *(40 marks)*
- 4 The large American firm, Heinz, produces a wide range of food products. In 2006, it announced the closure of its HP sauce factory in Birmingham, England, with production being switched to the Netherlands. This led to the loss of 120 jobs but was expected to result in a reduction of £25m in costs over 10 years. To what extent is this decision to move production of HP sauce likely to benefit Heinz's stakeholders? *(40 marks)*
- 5 The UK shampoo market is dominated by large, multinational, multi-product companies such as Procter & Gamble and Johnson & Johnson. Halos 'n' Horns is a newly established business that entered the market in 2005 producing children's shampoos that are particularly kind to the skin. Evaluate the ways in which the established firms might react when a new company such as Halos 'n' Horns enters the shampoo market. *(40 marks)*

END OF QUESTIONS

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