Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
June 2013

Business Studies BUSS2

Unit 2 Managing a Business

Tuesday 4 June 2013 9.00 am to 10.30 am

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(c), 1(d), 2(c) and 2(d) should be answered in continuous prose. In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Answer **all** questions in the spaces provided.

1 Read the **case study** below and then answer the questions that follow.

Bubbling up nicely

Henrik Mansell established *Zest Ltd* in 2001. The company supplies high quality soft drinks without preservatives or artificial flavours which gives the company a unique selling point (USP) in its market. The company supplies drinks made from spring water with flavours from imported plants.

Zest Ltd enjoys favourable media reviews for the quality of its products; product is the key element of the company's marketing mix and it spends relatively little on marketing. *Zest Ltd* faces competition from large rivals such as Coca-Cola who can sell at lower prices. The first major UK supermarket to stock *Zest Ltd*'s products found that sales of these products rose by 12% within three months. Further orders followed from other retailers, restaurants and bars who were impressed by the quality of *Zest Ltd*'s products. Building on its reputation for quality and its rapidly rising sales, *Zest Ltd* launched other soft drinks with natural ingredients, including lemonade and ginger ale. It plans to launch more new products.

However, Henrik has become concerned about the performance of the company's managers because the workforce has grown so quickly. The workloads of the company's managers have increased and some have complained that they lack the necessary skills (and time) to carry out their roles. Labour productivity has fallen, and the company has set a target of a 5% improvement in this area over each of the next three years.

Henrik is worried about the company's relatively low profit margin (9.2%) and its poor cash balance. Its bank is supportive and has granted a £2 million overdraft, although *Zest Ltd*'s cash position has deteriorated steadily. Henrik favours using the bank's debt factoring services to improve the company's cash flow, although some directors oppose this.

Figure 1: Actual and forecast data for Zest Ltd

Average span of control	**2011**	11
	2012	13
Average capacity utilisation in 2012	92%	
Cash balance 31 March 2013	(£1.97 million)	
Average days' trade credit in 2012	**Received from suppliers**	15 days
	Offered to customers	33 days
Outstanding debts owed by customers on 31 March 2013	£2.1 million	

Henrik has announced a plan to introduce new technology into the company's operations to increase capacity by 75%. The plan is to:

- use more automated machinery on the production line for repetitive tasks in the production, bottling and labelling of soft drinks; this will require training and making 8% of the company's employees redundant
- introduce new systems to link purchasing information and ordering systems directly with suppliers.

The total cost of buying and installing this new technology is forecast to be £8.5 million and the company hopes to negotiate a loan.

1 (a) Analyse **one** reason why it is important for *Zest Ltd* to maintain its high levels of quality.

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Question 1 continues on the next page

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1 (b) Examine how *Zest Ltd* might improve the performance of its managers.

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1 (c) Henrik believes that the best way for the company to improve its cash flow position is to use debt factoring. Do you agree? Justify your decision.

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1 (d) To what extent do you agree with Henrik's decision to invest £8.5 million on new technology for the company's operations? Justify your view.

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2 Read the **case study** below and then answer the questions that follow.

On the wild side

Twin sisters Erin and Claire Lees launched their independent fashion label *Wild Side Ltd* in 2005. The company designs and manufactures clothing which draws on Victorian and fairytale themes. The results are very distinctive and have attracted growing press coverage and attention from retail outlets. *Wild Side Ltd* sells throughout the European Union (EU) using retailers and selling online and plans to increase online sales in Australia, South Africa and Argentina by 10% annually until 2016. This will be difficult because the company's unit costs rose by 4.5% in 2012. Price elasticity of demand for *Wild Side Ltd*'s products is estimated at –0.8. Profit margins fell in 2012, although they are 20% higher than the average for the industry.

Figure 2: Extract from Wild Side Ltd's profit budget, October 2012 – March 2013

	October – December 2012 £000s		January – March 2013 £000s	
	Budget	**Actual**	**Budget**	**Actual**
Sales income	**3 208.5**	**3 501.9**	**3 150.0**	**3 078.1**
Cost of stock	1 183.9	1 246.0	1 134.2	1 189.5
Interest on loans	241.6	245.0	242.0	245.1
Wages and salaries	892.8	917.2	909.9	950.7
Marketing costs	324.5	297.0	303.4	303.8
Other costs	455.3	456.9	442.8	425.8
Total costs	**3 098.1**	**3 162.1**		
Profit or (loss)	**110.4**	**339.8**		

The company spends heavily on marketing – spending over £1.25 million in 2012, over 10% of its sales income. Although its market share is rising, this expenditure has contributed to its ongoing cash flow problems. It relies heavily on the use of its large overdraft.

The fashion clothing industry is noted for its short product life cycles and its low pay rates. Clothing produced by *Wild Side Ltd* rarely sells beyond one season (either summer or winter) and it is essential to enter the market early each season with new clothes. However, by selling through popular fashion clothing websites, such as ASOS.com, the company has increased sales and extended the selling period of some of its products. Furthermore, its summer clothes ranges continue to sell increasingly well in southern hemisphere countries, such as South Africa, during the UK's winter.

Levels of employee motivation declined during 2012. In response, Claire developed a plan to change employee payment methods. From 2 January 2013, the design teams received a share of the company's profits, and production line employees were moved onto a piece-rate pay system. This was expected to increase wage costs by £175 000 a year. Many employees think that the new pay rates are generous.

Erin and Claire disagree over the reasons for the company's success. Erin believes that the company's competitiveness depends heavily on the quality of the design of its clothes. Claire thinks that it depends on a wider range of factors.

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2 (a) Calculate *Wild Side Ltd*'s profit variance for January – March 2013 and state whether it was adverse or favourable.

Profit variance ....

Workings ....

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Question 2 continues on the next page

2 (b) *Wild Side Ltd* sells products with short product life cycles. Analyse the possible consequences of this for **one** element of the company's marketing mix.

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2 (c) To what extent do you think that Claire's plan to change employee payment methods was a good one? Justify your decision.

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2 (d) Erin believes that *Wild Side Ltd*'s competitiveness depends heavily on the quality of the design of its clothes. Do you agree with her? Justify your view.

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END OF QUESTIONS

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