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| Centre Number | | | | | | Candidate Number | | | | |
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| For Examiner's Use | |
| Examiner's Initials | |
| Question | Mark |
| 1 | |
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General Certificate of Education
Advanced Subsidiary Examination
June 2014

Business Studies

BUSS2

Unit 2 Managing a Business

Tuesday 3 June 2014 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.

A



J U N 1 4 B U S S 2 0 1

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

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

Wild World Ltd

Wild World Ltd (WW Ltd) is a popular zoo in Lancashire. It has an excellent reputation for its animal conservation and educational activities established over many years which has led to much favourable publicity. WW Ltd has steadily developed the zoo's facilities to make its product more attractive to its customers. The company's managers believe their product is the most important element of the marketing mix. This makes it difficult for competitors to copy WW Ltd's business model. Rising visitor numbers during 2011–13 allowed WW Ltd to be very price-competitive. It is a very seasonal business, receiving 56% of its visitors during July and August.

WW Ltd's finances have been carefully planned to help to manage issues such as the effects of being a seasonal business. It has set targets of 10% for profit margins and 15% for its return on capital. WW Ltd is negotiating a £3.0 million loan to finance the expansion of its internationally respected breeding programme and education facilities. The educational centre will be closed during autumn 2014 whilst its facilities are improved; it is expected to reopen in January 2015. WW Ltd's Chief Executive believes there will be significant long-term financial advantages from this expansion. However, other directors are concerned that repaying the loan may create cash flow problems. Despite this, they believe it will help to promote WW Ltd's unique selling point of educational activities and animal conservation and maintain its competitive advantage.

Other key issues

- In 2013, price elasticity of demand for WW Ltd was estimated at -0.3 in July and August, and -0.95 for the rest of the year.
- Investment in the expansion programme is forecast to increase profits by an annual average of £0.5 million during 2015 and 2016.
- Market research indicates that 63% of visitors consider the educational value of the zoo to be the most important factor in their choosing to visit the zoo.
- Annual spending on promotion by WW Ltd is 40% of the average promotional spending by competitors.

Figure 1: A summary of WW Ltd's income, expenditure and profit budgets 2012–2016 (£m)

| Item | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------|-------------|-------------|------|------|------|
| Budgeted income | 19.4 | 19.7 | 19.9 | 24.5 | 26.3 |
| Actual income | 19.8 | 19.9 | | | |
| Budgeted expenditure | 17.8 | 17.8 | 17.9 | 22.1 | 23.8 |
| Actual expenditure | 17.8 | 17.9 | | | |
| Budgeted profit | 1.6 | 1.9 | 2.0 | 2.4 | 2.5 |
| Actual profit | 2.0 | 2.0 | | | |



1 (a) Explain **one** possible benefit to WW Ltd of having a 'unique selling point of educational activities and animal conservation'.

[6 marks]

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

The Business Cycle?

Buckden Bicycles Ltd has a long history of manufacturing fold-up bicycles which are easy to transport in cars or on trains. It has a reputation for excellent customer service and its products are valued for the quality of design and manufacturing. The bicycles sell at prices from £275.

From a single factory, a highly trained, skilled and loyal workforce supplies retailers throughout the UK, including John Lewis. Although the firm has faced difficult times over its 45-year history, the past few years have been particularly challenging. The company has suffered operational problems whilst the UK's economic problems have affected its sales.

Figure 2: Selected operations and HR data for Buckden Bicycles Ltd, 2011–2013

| | 2011 | 2012 | 2013 |
|---|---------|---------|----------|
| Maximum capacity | 55 500 | 55 500 | 55 500 |
| Labour productivity (bicycles per employee per year) | 241 | 230 | 224 |
| Average number of employees | 190 | 175 | 159 |
| Expenditure on training per employee per year (industry average = £154 in 2013) | £476 | £281 | £103 |
| Unit cost | £281.50 | £288.40 | £300.20 |
| % of finished products returned as faulty by customers | 1.31 | 2.40 | 3.55 |
| Capacity utilisation (%) | 82.5 | 72.52 | See 2(a) |

One of the company's operational problems has been that of meeting deadlines for delivery to customers. This has been damaging to the company's reputation and threatens customer loyalty. The management team is determined to cut costs, as several shareholders are unhappy with the company's financial performance and it has made increasing losses since 2010. The company has reduced staffing numbers by not replacing staff who retire or leave. Its training budget has been cut steadily since 2009.

Following careful research, Buckden Bicycles Ltd decided in May 2014 to switch its main supplier of components from a small local firm to a much larger business in Poland.

The Polish supplier offered:

- prices 5% lower than the previous supplier
- delivery within 72 hours (rather than two weeks)
- internationally recognised quality standards.

However, a minority of Buckden Bicycles Ltd's management team was concerned that its orders would represent a tiny part of the Polish supplier's production and that the supplier might not therefore be very flexible in meeting changes in demand.

At the start of 2014, the management team implemented a revised organisational structure and simultaneously empowered the workforce. The organisational structure was flattened by the redundancy of eight supervisors from the factory floor. The jobs of junior employees were redesigned to allow a greater range of tasks and more decisions to be taken at this level.



2 (a) Calculate Buckden Bicycles Ltd's capacity utilisation for 2013.

[5 marks]

Capacity utilisation

Workings

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2 (b) Analyse why Buckden Bicycles Ltd may have decided to empower its workforce.

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2 (d) Buckden Bicycles Ltd has recently experienced operational problems. To what extent is the change of supplier likely to improve its operational performance?

[14 marks]

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END OF QUESTIONS

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