



General Certificate of Education  
Advanced Level Examination

## Business Studies

## BUSS3

### Unit 3 Strategies for Success

**Specimen paper for examinations in June 2010 onwards**

**This question paper uses the [new numbering system](#) and [new AQA answer book](#)**

**For this paper you must have:**

- an AQA 12-page answer book
- a calculator.

#### **Time allowed**

- 1 hour 45 minutes

#### **Instructions**

- Use black ink or black 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 BUSS3.
- Answer **all** questions.
- Do all rough work in your answer book. Cross through any work that 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, 3 and 4 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.

### Formulae for Financial Ratios

Financial ratio	Formula
<b>Current ratio</b>	current assets : current liabilities
<b>Acid test ratio</b>	liquid assets : current liabilities Where liquid assets are current assets – inventories (stock).
<b>Return on capital employed % (ROCE)</b>	$\frac{\text{operating profit}}{\text{total equity + non-current liabilities}^{**}} \times 100$ ** Where this equals capital employed.
<b>Asset turnover</b>	$\frac{\text{revenue}}{\text{net assets}}$
<b>Inventory (stock) turnover</b>	$\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$
<b>Payables (Creditors) days (Payables** collection period)</b>	$\frac{\text{payables}^*}{\text{cost of sales}} \times 365$ * payables = creditors throughout this formula.
<b>Receivables (Debtors) days (Receivables** collection period)</b>	$\frac{\text{receivables}^*}{\text{revenue}} \times 365$ * receivables = debtors throughout this formula.
<b>Gearing</b>	$\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities}^{**}} \times 100$ ** Where this equals capital employed.
<b>Dividend per share (in pence)</b>	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
<b>Dividend yield (%)</b>	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

---

Read the **case study** and answer **all** the questions that follow.

---

### Home or abroad?

*Coffee Delight plc* was a late arrival in the UK coffee shop market. By 2005 the boom in this market was practically over. The London market was saturated and companies looked to the UK's regional markets for further sales growth. However, these were highly competitive with regional chains such as *Chocolatesoup* putting pressure on sales figures, prices and profits.

*Coffee Delight plc* operates combined coffee bars and sandwich shops with internet access available in most outlets. The company uses its space intensively to give a 'busy, active' feel which customers say they like. The company's main aim is growth and it has gained a 6% share of the UK market with its clearly branded shops. Market research shows high brand recognition amongst UK consumers. *Coffee Delight plc* controls budgets centrally and seeks to minimise its costs of production.

The company conducts regular market research (using technology such as the Internet whenever possible) and uses this information to shape its promotional activities. The company is consistent in its use of very competitive prices for nearly all its products to win customers.

Business analysts view *Coffee Delight plc's* operations as highly efficient. The company seeks to locate its outlets just off high streets and outside shopping malls. Despite its cost effectiveness, the quality of its products and service are acknowledged by customers and competitors. The company uses the latest technology to prepare its food and drink, and its outlets' opening hours are longer than most of its rivals.

The company's HR strategy is 'hard' and has two main elements. It employs a core staff of managers who are highly trained and receive competitive salaries plus benefits. The majority of these managers work at the head office where all significant decisions are taken. However, most of the workforce receives hourly rates (many at the level of the minimum wage), plus bonuses if sales targets are met. Some employees have expressed dissatisfaction with wage rates and, in the London outlets, there is an ongoing threat of industrial action. Managers are given ongoing training and the company invests in regular hygiene and customer service training for its coffee shop employees.

*Coffee Delight plc's* sales forecasts suggest that growth in market share in the UK will be a tough target. *Coffee Delight plc's* Chief Executive, Sascha Grey, believes that, although growth in sales is possible in the UK's regional markets, other opportunities exist in overseas markets.

### The Decision

Sascha Grey and *Coffee Delight plc's* other directors met to discuss the company's future direction. Sascha started by saying he had two options and some relevant data (shown in **Appendices A to D**).

The case study continues on the next page

Turn over ►

Sascha explained that some competitors have been very successful in expanding into the new member states of the EU. "An option is to expand into one of the European Union's newest member states. Romania is changing rapidly and growth in consumer spending is forecast; it will receive financial support from the EU - £17 000 million over the next seven years. There is only limited competition in Romania currently (but this is likely to change quickly), and we could establish ourselves in this market early. There are obvious advantages in terms of costs and this could be the start of a programme of overseas expansion. Our 'Romanian Option' is that we open 20 coffee shops, using our existing model, over the next two years."

This proposal generated debate. One director pointed out there is less information available on the likely trends in consumer spending and wage rates in Romania and that the results of research were less reliable. "Are we comfortable with this?" she queried.

Sascha offered his second proposal – 'The UK Option'. This was to operate solely within the UK using the established business model and to seek to open 20 further coffee shops in smaller cities and towns outside the south east of England. A number of directors could see the benefits of this option.

The Finance Director noted that both expansion projects met the company's financial objective of a 10% annual average return, but that the Romanian project looked more attractive.

## STATISTICAL APPENDICES

### Appendix A: UK Coffee Shop Market Data

	2002-2006 (Annual average, actual)	2007-2010 (Annual average, forecast)
Market growth (%)	6.2	3.9
Coffee Delight plc sales growth (%)	8.4	5.1
Market share of top ten coffee shop chains (%)	65.4	73.1

Index number showing price of standard cup of espresso in the UK

	2004 (base)	2005	2006
Coffee Delight plc	100	99	97
Industry average	100	103	105

### Appendix B: Market and other Data for Romania

Income per head (Forecast annual growth 2006-2009)	5.1%
Growth in retail sales 2005	25%
Average* Forecast Growth in Coffee Shop sales (annual average 2006-2009) * Average of six forecasters	5.9%
Average weekly pay – private sector (converted into £s, 2006)	£46.81
Total tax rate (% of company profit) (UK – 35.4%)	48.9%
Internet usage at home (% of population over 16, 2005)	29.6%

### Appendix C: Human Resource and Marketing Data for Coffee Delight plc

	2002	2006
Average sales per coffee shop (Index of volume)	100	102
Temporary or part time staff as a percentage of total staff	23%	41%
Average number of staff (FTE) per coffee shop	4.1	3.9
Labour turnover per annum	11%	19%

### Appendix D: Financial Data

Net cash flow 2006-2007	-£0.6 million
Annual average operating profits over last three years	£2.65 million
Return on Capital Employed, 2006	8.5%

	Romania	UK
Forecast cost of expansion (£m)	10.6	8.1
Expected net returns over first four years (£m)	Year 1	1.85
	Year 2	3.08
	Year 3	5.12
	Year 4	7.99
		3.45

- 0 1** To what extent might the success of *Coffee Delight plc*'s marketing strategy in Romania depend upon its directors preparing an effective marketing plan? (18 marks)
- 0 2** Analyse whether or not the Finance Director is correct to say that both expansion projects meet the company's financial objective of a 10% annual average return, but that the Romanian project looked more attractive? You should support your answer with relevant calculations. (10 marks)
- 0 3** To what extent do you consider *Coffee Delight plc*'s 'hard' human resource strategy to have been a success? (18 marks)
- 0 4** Using all the information available to you, complete the following tasks:
- analyse the case for *Coffee Delight plc* expanding further in the UK
  - analyse the case for *Coffee Delight plc* opening outlets in Romania
  - make a justified recommendation on which option the company should choose. (34 marks)

**END OF QUESTIONS**

**There are no questions printed on this page**

**There are no questions printed on this page**

**There are no questions printed on this page**