

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced Subsidiary GCE**

**BUSINESS STUDIES**

**2871**

Businesses, Their Objectives and Environment

Wednesday

**12 JANUARY 2005**

Afternoon

1 hour

Additional materials:  
Answer Booklet

**TIME** 1 hour

### **INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Answer **all** questions.
- If you use extra sheets of paper, fasten the sheets to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

### **INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is 45.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

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**This question paper consists of 5 printed pages and 3 blank pages.**

**2**

Answer **all** questions.

- 1** Describe **two** changes in the data shown in Figure 1. [4]
  
- 2** “An ethical approach to business would mean major benefits for this company.” (Line 57)  
To what extent do you agree with Anna Pritchard’s view? [14]
  
- 3** “This diversification could be a major step on the road to achieving our objective of profit maximisation.” (Lines 50–51)  
Analyse how diversification could help ST achieve this objective. [9]
  
- 4** State **two** ways in which Ali Zaman could assess the state of the economy. [2]
  
- 5** Evaluate how a change in interest rates might affect ST. [14]

## SMILIN' TIGER (ST) plc

Trisha 'Tiger' Thompson had been a successful UK pentathlete in the mid-1980s. When she retired from the sport she went into business with her uncle, Jeff Laurel, lending her name, reputation and some capital, to a new health club in her home city of Manchester. The club was an instant success. The business benefited from the growth in leisure time, particularly among the middle and higher income groups and it is now a public company that operates a chain of twelve health clubs across the UK. Trisha's role is now one of an advisor, rather than management, although she is active with promotion, particularly personal appearances. 5

As well as being a tenacious competitor, Trisha had been known for her good humour and her wide smile. This gave rise to the variation on her nick-name; she was often referred to as 'the smiling tiger' and 'Smilin' Tiger' is the brand name under which the health clubs operate. 10

Each health club incorporates a shop selling ST brand sportswear and equipment with the company name and logo, in addition to the well-established brands. The ST brand products are manufactured in the Far East. The other products are purchased from UK distributors. 15

The ST equipment on sale at the health club shops has always sold very well and over the past two years the sportswear has increasingly been used as a fashion item. It has attracted a lot of attention and sales have risen considerably. There is a huge demand and some items sell out within a week of being delivered. The increase in brand awareness has also boosted club membership and the sales of ST products. 20

However, competition has intensified both from other sporting activities and other leisure pursuits. After some consideration, ST's Board is now planning to open a chain of high street sports shops of a similar type, but of a larger size to those in the health clubs. Data gathered by Anna Pritchard, the Marketing Director, indicates that this is a growing market that could potentially be very successful. It could enable the company to diversify into a separate, but related, area by capitalising on the ST brand name. Initially, the idea is to limit the number of shops to four – in Manchester, Cardiff, Edinburgh and London – with further shops opening if demand increases as expected. 25 30

Despite all the optimism about the new venture, all is not well and there are some important issues to be resolved. The situation is not helped by the attitude adopted by Jeff Laurel who is the Chairman of ST.

One issue surrounds adverse and embarrassing publicity about some of ST's sports clothing that is imported from the Far East. An article in a national newspaper highlighted the poor conditions that ST's Indonesian supplier forces on its workers. For a business that emphasises a happy, healthy lifestyle in its promotion, this is a problem. 35

Anna and Jeff disagree as to the urgency of addressing the matter. The discussion at the last Board meeting got quite heated. 40

"Look Jeff," said Anna, "I really am concerned about our Indonesian supplier and I know Trisha is as well. It isn't complying with our Code of Practice, something we launched with great publicity only two years ago. We are being seen as hypocritical. We need to deal with this now and put strong pressure on the supplier. Perhaps we 45

could offer it a financial incentive if it improves conditions at once. Our company is on the brink of a major and important expansion and we need to use all possible means to make it work. Acting ethically and being *seen* to act ethically will help us to do that." She then presented the data in Figure 1.

Jeff glanced at the data and looked as if he might explode. "This diversification could be a major step on the road to achieving our objective of profit maximisation," he said. "That's the only thing we agree on. Ethics are a fad and nothing more. Our duty is to our shareholders. If we are to succeed, we need to drive the hardest bargains we can. If we can keep costs down, that's brilliant. What you are suggesting will put them up. If we start worrying about ethics the whole time it distracts us from our true purpose." 50 55

"An ethical approach to business would mean major benefits for this company," began Anna, "for example..."

"There is no agreement on what being an 'ethical' company is," interrupted Jeff scornfully, "and I don't intend to sit around here debating it." 60

At that point, Rory Goodlake, the Human Resource Director spoke. "Can we leave that and move onto a more pressing problem? As you know, in the past, I've reported several problems with recruitment and retention at both management and front line level. These problems have worsened recently. Graduates don't seem to want to come near us." 65

"Just what on earth do these students want?" retorted Jeff. "This company offers the same sort of employment package as our competitors, and if they can't recognise that then as far as I'm concerned we don't want them. As for the others that you're having trouble with, I can't see what the problem is! We pay them the minimum wage don't we?" 70

"We pay slightly above it even for our lowest grade of employee but we could easily afford more," said Rory.

"Don't tell me you want to put our costs up as well," said Jeff angrily.

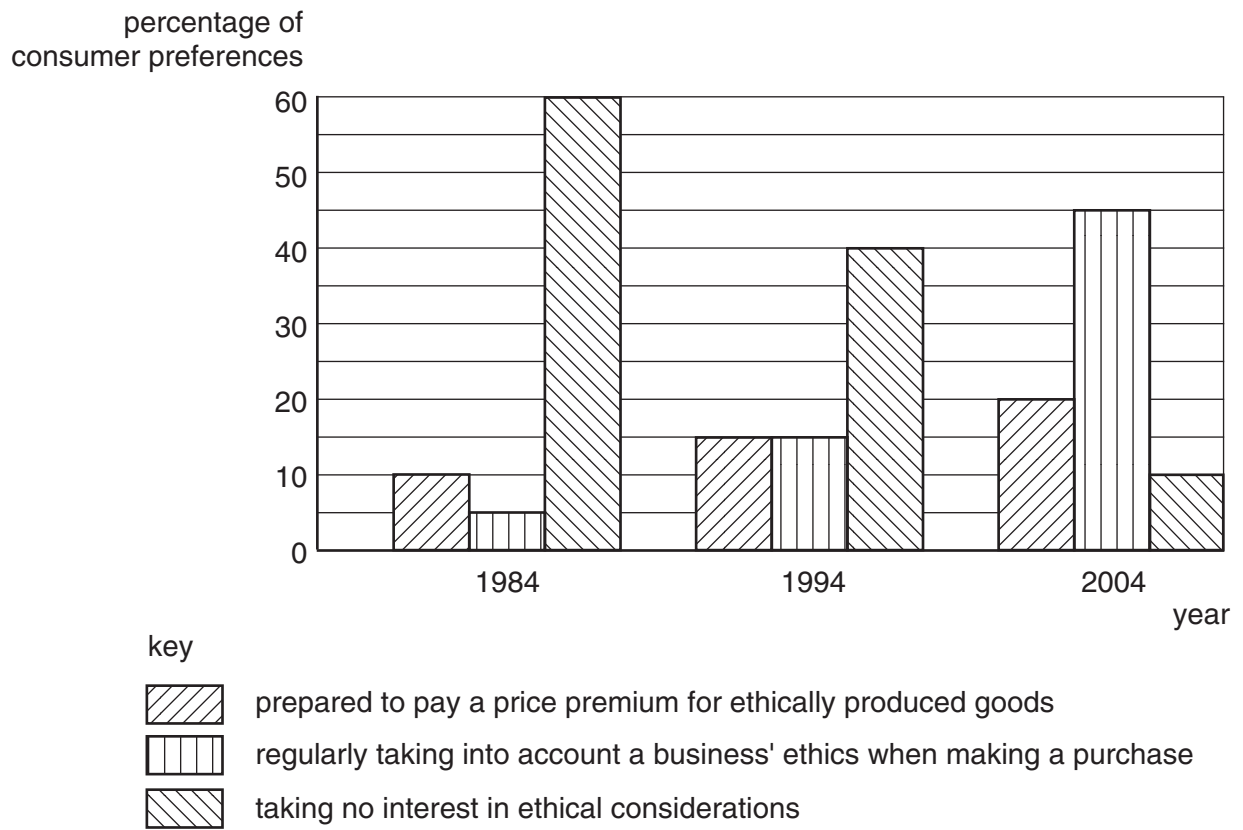
"I really feel I must say something," broke in Ali Zaman, the Finance Director. "This is all very interesting but I have a more fundamental issue to raise. Are we sure that this is the correct time to be diversifying at all? The state of the economy is a matter of some dispute." 75

"And just what is your assessment of the state of the economy?" replied Jeff. "Where are we on the economic cycle?"

"I need some more time to answer that question. That's the point of what I'm saying," said Ali. 80

"Right," said Jeff in a voice that suggested any more talking would be pointless, "I want us all back here in one week with some proposals to deal with these issues. I don't want any more complaining about problems. I want solutions."

## Customer Preferences Regarding Ethically Produced Goods



**Figure 1**





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