

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced GCE**

**BUSINESS STUDIES**

**2879**

Business Thematic Enquiry

Tuesday

**1 FEBRUARY 2005**

Morning

1 hour 30 minutes

Additional materials:  
Answer Booklet

**TIME** 1 hour 30 minutes

**INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Complete both tasks.
- Write your answers on the separate answer booklet provided.
- If you use extra sheets of paper, fasten these sheets securely to the answer booklet.
- Read the tasks carefully and make sure you know what you have to do before starting your report.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each task.
- The total number of marks for this paper is 90.
- You will be awarded marks for the quality of your written communication.

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**This question paper consists of 4 printed pages.**

## Trench and West (T&W)

Trench and West (T&W) is a small partnership providing specialist computer programme packages for data analysis. This 'high tec' business was started by Robert Trench and Rosalind West in 1998. Each of the partners contributed £250,000 to business capital.

Most small businesses are high risk ventures in their early years but 'high tec' ones are particularly sensitive. The partnership had a very difficult first two years. Robert and Rosalind were almost defeated by their cash flow problems. 5

The main business of the partnership is the collection, processing and provision of information. In 2001 they began to attract business from a government department and this gave them a secure base from which to grow. To make this growth possible and provide scope for specialisation the partnership was reconstituted with the addition of two new partners, Jeremy and Barbara. Each contributed £100,000 to capital. 10

Within this extended partnership there was opportunity to divide the workload, and the partners decided to do this as shown below.

**Robert:** Joint managing partner with responsibility for all aspects of the programming work and the production of the packages. He will work with two assistants, one of whom will be researching and developing new packages. 15

**Rosalind:** Joint managing partner with special responsibility for finance. She will work with one assistant.

**Jeremy:** Has a marketing degree and five years experience as a marketing manager in his former job. He will run the marketing department and search for new business. He will have two assistants working with him. One of them will be responsible for customer support services. 20

**Barbara:** Has personnel management skills and will have responsibility for all the usual functions associated with the assistants working in other departments and for the two working with her on administrative aspects of the business. 25

The future is by no means secure. There is capacity to increase the workload by up to one third. There is no significant seasonal pattern in the market. Retained profit for the financial year ending 31 December 2004 was £200,000; this has not, as yet, been used for any purpose. 30

At a meeting of the four partners on 10 January 2005, consideration was given to three options. The first two relate to ways of using the capacity the business has as a custom builder of programmes. The third option is to agree to sell the business. The employment of all the assistants detailed above would be necessary if the partners decide to accept either Option 1 or Option 2. 35

### **Option 1: Steady Growth**

The business will aim to remain in the same market attempting to attract new customers and provide a wider range of products. The option can be financed initially from the £200,000 retained profit which is still unused. Finance for subsequent years is expected to come from ploughing back profits. To do this, the partners will have to accept smaller drawings from the business for the next three years. Forecast growth in turnover is 5% per annum. This will mean a small but steady increase in profits, but little immediate return to the partners. This is regarded as a very low risk option. 40

**Option 2: Generalised Programmes**

The work currently undertaken is specific to the needs of each customer, but there is a market for generalised programmes, and the partners consider that minor modifications would enable them to identify and target those customers. Jeremy has researched the market. The forecast revenues from, and costs of, entering this market are shown in **Table 1**.

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**Table 1: Forecast Revenue and Costs for Option 2**

<b>Revenue</b>	<b>£</b>	<b>£</b>
150 computer software packages @ £5,000		750,000
<b>Costs</b>		
New Equipment	30,000	
New Staff Wages	120,000	
Recruitment and Training	20,000	
Marketing Costs	50,000	
Research and Development	20,000	
Programme Production Costs	<u>10,000</u>	<u>250,000</u>

Jeremy admits that the forecast is ambitious and that, in the first year, actual sales could be as low as 100. There is considerable competition and it could be that prices will have to be reduced. If selling proves more difficult, this could lead to an increase in marketing costs. It is accepted that this option is potentially very profitable but high risk.

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**Option 3: Selling The Business**

Worldtec is a multi-national business seeking a base in the UK and has made an offer to takeover T&W. The offer is an outright purchase for £1 million, half of which would be paid in Worldtec shares. Robert and Rosalind are also offered employment as managers within Worldtec. No employment offer is made to Jeremy and Barbara.

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Required:

Write a report for the partnership advising them which option they should adopt. In writing your report you should use the evidence given in the case. You should also use any evidence you have gathered from your study of problems and strategies associated with risk and reward. The title of your report must be:

'In the present circumstances of the partnership which is the best option for the partners to select?'

Complete both the tasks below

Task 1

Write a plan for your report in which you make clear: [10]

- (i) the problem as you see it and the need to solve it;
- (ii) the context in which this problem must be solved;
- (iii) your objectives in your approach to the problem;
- (iv) any assumptions you make and the reasons for them.

You are advised to spend not more than 15 minutes on this task.

Task 2

Write your report. [80]

In it you must satisfy the criteria on which the assessment is based.

You should ensure that you:

- (i) provide terms of reference for the report;
- (ii) select appropriate evidence for this task. You should use evidence both from the case, from business theory, and from work you have done in preparation;
- (iii) present and analyse the evidence logically and in line with the objectives you set and the assumptions you made in the plan;
- (iv) consider the situation and arrive at a supported recommendation.