

**ADVANCED SUBSIDIARY GCE UNIT
BUSINESS STUDIES**

Businesses, Their Objectives and Environment

MONDAY 4 JUNE 2007

2871

Afternoon

Time: 1 hour

Additional materials: Answer Booklet (8 pages)
Candidates may use calculators in this examination.



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INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Write your answers in the answer booklet.
- If you use additional sheets of paper, fasten the sheets to the answer booklet.
- Answer **all** questions.

INFORMATION FOR CANDIDATES

- The number of marks for each question 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.

ADVICE TO CANDIDATES

- Read each question carefully and make sure you know what you have to do before starting your answer.

This document consists of **6** printed pages and **2** blank pages.

Answer **all** questions.

- 1 Outline **two** ways in which DKE could benefit from a 'detailed business plan' (line 7). [4]
- 2 Evaluate possible effects of Simon's attitude to business ethics on DKE's stakeholders. [14]
- 3 Don has decided to give 'serious consideration' to buying TCT (line 57). He estimates that Michael would accept an offer of £160,000.
- State **two** appropriate sources of finance that Don could use to purchase TCT. [2]
- 4 Don's initial business objective was 'to make twice the income he had earned as an employee by the end of his first year' (lines 20–21).
- Analyse why Don's business objectives are likely to change over time. [9]
- 5 'The state of the economy looked favourable to Don' (line 55).
- To what extent will DKE be affected by the state of the economy? Justify your view. [14]

D.K. EXHAUSTS (DKE)

Don Keynes, aged 36, had trained as a motor mechanic but had never felt entirely happy working for someone else. For the best part of 20 years with different employers he told himself that "I could run the place better than this". In 2002, he set out to prove himself right when he opened his first tyre and exhaust centre in Barnchester, a town in the Midlands. A second branch was opened in February 2006 at Drayfield which was about 10 miles away.

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It had been a risk but Don was a meticulous man who knew that although business risks could not be eliminated, with a detailed business plan they could be reduced. He invested a large sum himself and persuaded his brother to contribute to the venture as a sleeping partner. With this in place, he had little difficulty raising the rest of the necessary finance from his bank.

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Don decided right from the start that he would treat his customers, employees and suppliers ethically. He was proud of the quality and value of the products he offered. The motto of his business, which is now printed in large letters in the customer waiting rooms in both of his branches, was 'friendly advice and excellent service come free'. The employees in his Barnchester branch had always been paid above the market rate and Don had tried his best to manage them fairly. He had provided a rest area for them with a fridge, microwave, fresh coffee maker, and a TV. His suppliers were always paid promptly. Don became active in the local community. DKE sponsors the local football club's youth teams and a local theatre group.

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His initial business objective was to make twice the income he had earned as an employee by the end of his first year. This had been achieved. In fact all of the financial targets that he had set had been exceeded in the first year and the number of customers continued to grow. Don had no doubt that it was because of the way he ran his business.

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By the autumn of 2005, Don decided his business objective should now be growth; hence the opening of the Drayfield branch. This branch had not proved to be as successful as he had hoped but Don thought he knew why: it was because of the way it was being managed. As he could not be in two places at once, he had had to appoint someone to run the branch for him. In fact, there had been four different managers since it opened. The first two did not appear to understand Don's approach to running a business and had little interest or success in meeting the objectives Don had set them. Both had left after Don had forcibly pointed out their failings. The third manager had been caught stealing stock and was dismissed.

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Just as Don was beginning to think that he had made a serious mistake in opening the branch, he had met Simon Buckley. Simon was young, well trained, articulate and keen to accept management responsibility. He also had very good references. Don employed him to manage the Drayfield branch in February 2007.

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Don had visited the Drayfield branch several times since he appointed Simon. He was delighted that almost at once the branch had moved back on to its financial track and the working atmosphere in the branch whenever he visited was very positive. Today, he was going over to have the formal quarterly meeting with Simon. Turnover and profits looked promising and the cash flow position was the best it had ever been. Whilst Don was pleased with this, he wanted to find out just how Simon had achieved it.

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As he drove over to Drayfield, Don started to think that if business really was going so well perhaps he should aim for further growth in his business. An opportunity for him to do this had arisen. Don had heard, through his contacts in the trade, that a garage, 'Tread Carefully Tyres' (TCT), with all the necessary equipment was on sale at a very competitive price.

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He knew the person who was selling it: Michael de Silva. Don had actually worked for him some years ago. Michael had been a competent mechanic but had little business sense. He never bothered to plan anything and his garage had operated in a state of constant confusion. Don was not surprised that he had run into trouble.

This situation was an opportunity for DKE to grow that was almost too good to miss. Michael apparently wanted a quick sale and so the asking price was relatively low. It had two other advantages. Michael had recently gained the repair contract for a fleet of delivery vans and, if the contract was properly managed, Don felt that TCT could be very profitable. Furthermore, it was located on an industrial estate that was closer to his home than the Drayfield branch and it would make a good head office. The state of the economy looked favourable to Don, and he felt that if all went well with the purchase, he could look forward to a comfortable early retirement. He would give serious consideration to buying TCT, he told himself, following his meeting with Simon. 50 55

Don liked to check matters relating to his business personally. When he arrived at Drayfield he took his time walking through the workshop. Everything seemed in order. He looked carefully at the underside of a car which was up on a ramp. He was pleased to see that the mechanic inspecting it was obviously following the health and safety regulations. The area where the stock was kept was tidy and the stock control records were up to date and accurate. Simon certainly seemed to be making a good job of things. Don decided to have a cup of coffee and look at the accounts. 60 65

He got himself a drink from the coffee maker, went into the office, and began looking through the spreadsheets on the computer and at some recent invoices. He soon discovered why the cash flow position had improved so dramatically over the last few months: Simon was delaying payment of invoices to the main suppliers for at least six weeks. Don's policy was to pay after two weeks in order to ensure loyalty and a good working relationship. Don was reflecting on this disparity when Simon came into the office. 70

"Notice any difference?" Simon gestured at Don's coffee cup.

"Pardon?" replied Don.

"I've switched the coffee over to decaff." said Simon. "I haven't said anything and nobody's noticed. It's been a great success because they don't get the 'worn out by three o'clock' effect from drinking too much earlier in the day and so ... oh, hang on a minute. I need to speak to that bloke who brought in the car you looked at just now. He wants to know about his exhaust." He walked back to the front desk. 75

"I'm afraid your exhaust is coming to the end of its useful life – that's why its been making all that noise," Don heard Simon say. "It really needs both the middle and the rear sections replaced. It's going to be £220." Don noted that Simon had chosen an exhaust at the top of the price range. 80

"Are you aware that your two front tyres are worn?" Simon went on.

"Oh dear," said the man. "Are they illegal?"

"They're going that way," replied Simon, "and don't forget it's three points on your licence for each bald tyre." 85

"You'd better replace them then," replied the man. "How much is that going to cost?"

Simon entered some numbers on to the computer in front of him. "You'll want the wheels balanced and realigned won't you?" It was more a statement than a question.

“Well ...” replied the man uncertainly.

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“I can see you’ve got kids, from the child seats in the car,” interrupted Simon, “so obviously safety is all important.” He pointed to his computer screen. “I recommend that you fit these. £69.99 each. Plus VAT. And £26 for the balancing and alignments.”

“On each wheel?” asked the man.

“Oh no,” said Simon, in a tone that suggested this would be unthinkable. “That’s for both.”

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The man looked slightly more relieved. “OK then, go ahead,” he said.

“We’ll have it done straight away,” said Simon in a friendly tone. “Have a seat.” He came back into the office and closed the door.

“That’s not very ethical is it?” asked Don.

“What, the coffee?” laughed Simon.

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“No. What you’ve just told that customer. Only the rear section of his exhaust needed replacing, and those tyres were alright. I saw them myself.” Don waved some of the invoices he had been looking at. “Then there’s your treatment of our suppliers, and ... well yes, I suppose there’s the coffee as well.”

“Look, you employed me to make this branch as profitable as possible and that’s what I’m doing,” replied Simon. “Come on Don, you’ve been in the motor trade longer than me. If he’d gone to another garage they would have told him exactly the same thing. The middle section is very rusty and will ‘go’ soon anyway. And I didn’t lie to him about the tyres did I? They *are* wearing. In a few months they’ll be at the legal limit. As for our suppliers, you don’t need to worry about them. They’re not going to desert us just because we’ve made life a bit difficult. We’re too good a customer. With regards to the coffee ... well, it’s not as if I’m drugging them is it? Exactly the opposite! You’d be amazed at how much its improved performance in the afternoon.”

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Don drew a deep breath. “Sit down Simon,” he said. “There are a number of things I need to discuss with you right now.”

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