

ADVANCED GCE
BUSINESS STUDIES
Business Thematic Enquiry
FRIDAY 20 JUNE 2008

2879

Afternoon
Time: 1 hour 30 minutes

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
Calculators may be used



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 for each question 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.

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

Inter-Link

Inter-Link is an Internet café located in the suburbs of North London operating as a partnership. It is well situated on a busy bus route and within easy walking distance of three underground stations. It opened in 1986 and achieved steady profits until three years ago. Trade has fallen off rapidly and the remaining customers are largely those who want to play computer games or just like surfing the net.

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Brother and sister, Christopher and Linda Jenkins, jointly own Inter-Link. Although they are now aware that something has to be done to generate business, they have been slow to recognise this. As a result, the business has very little capital with which to develop new ideas. However, Linda's husband, Joseph, and Christopher's wife, Annette, are both keen to join them and with a little further family help they could form a private limited company with the assets of the café, valued at £450,000, and additional capital of £200,000.

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The question they are now discussing is how the business can profitably change. They have discarded the idea that they can regenerate the Internet market and have come down to two possibilities.

Option 1:

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To focus on computer games since this seems to be by far the most common reason why customers come into the shop. There are three possibilities for income from this source. The main one would be playing the games with minor support from a lending library of games and light refreshments from the café. This would cause least disruption to their current activities and would be low risk. However, they are worried about the management problems it might cause and potentially high insurance costs. They are aware that games have a short product life cycle and replacement would be a continuing cost. They also consider that employing and motivating two people to control day to day operations may not be easy. Their estimates, based on little more than observation of current customers and guesswork, are shown in Table 1. The shop would have 16 gaming stations and estimates are based on 50% average use over a 10 hour day and 364 days of opening. This leaves great potential for substantially higher profits, but there is a significant risk of not breaking even.

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Option 2:

Annette is a trained chef currently working at a local hotel with a good reputation for its meals. She, therefore, suggests that although running a good medium priced restaurant on the premises would face strong competition, Inter-Link could be more profitable in that business. Annette would be prepared to run the kitchen, but would expect a salary of £20,000 a year in addition to her interest in the business. The estimated outcome from Option 2 is shown in Table 2.

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The figures suggest a better return from Option 2 but there are a number of problems. Annette's experience has shown her that restaurant staffing problems are often acute and this sometimes makes good service, which is essential to success, difficult. Labour costs are often higher than expected. Christopher suggests that, since good service tends to generate tips, labour costs could be reduced by paying the three kitchen staff who will work with Annette, and the three restaurant staff less than the £6 per hour which is built into the estimates.

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Linda has worked with Annette on the estimated income and says her figures are based on 50% capacity utilisation at both lunch and dinner, so there is potential for greater profits. Joseph is concerned about the high wastage rates in restaurants and the length of time before the restaurant might build up to even the suggested 50% capacity utilisation. Whilst long term success may be possible, will the business have the working capital to survive the first two years? 40

In both options there are many issues to resolve and in both there appear to be great risks of failure but potential for a satisfying profit. Christopher's final comment is that, if they don't do something new, they will fail anyway. 45

Table 1: Estimated Outcome From Option 1

Start-Up Costs	£'000	£'000	
Initial Capital Outlay	76		50
Less Sale of Unwanted Assets	<u>12</u>		
Net Outlay		64	
Recruitment/Training Costs		5	
Refurbishment of Premises		9	
Initial Promotion Costs		10	55
Increased Insurance Costs		<u>2</u>	
Total		<u>90</u>	
Running Costs per Annum		82	
Depreciation		<u>24</u>	
Total Annual Cost		106	60
Estimated Income			
Gaming Stations	97		
Café	30		
Hire of Games	12		
Sale of Old Games	<u>4</u>		65
Total		<u>143</u>	

Table 2: Estimated Outcome From Option 2

Start-Up Costs	£'000	£'000	
Initial Capital Outlay			
Refurbishment	15		70
Upgrading Kitchen	25		
Furnishing Restaurant	<u>20</u>		
Total	60		
Less Sale of Unwanted Assets	<u>20</u>		
		40	75
Licensing and Promotion	10		
Recruitment and Training Costs	10		
Initial Stock	<u>30</u>		
Total		50	
Running Costs		260	80
Depreciation		18	
Total Annual Cost		278	
Estimated Income			
Lunches	100		
Evening Meals	300		85
Bar: Lunch	26		
Evening	<u>140</u>		
Total Income		566	

Required:

Write a report to the owners of Inter-Link advising which of the two options should be undertaken. In writing your report you should use the evidence given in the case. You should also use any evidence you have gathered from a study of the problems and strategies associated with making decisions to ensure survival. The title of your report must be:

Which of the options available to Inter-Link is most likely to ensure long term survival?

Complete both tasks below:**Task 1**

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

- (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.**

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Task 2

Write your report.

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 from the case, from business theory, and from work you have done in preparation;
- (iii) present and analyse the evidence logically, 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.

[80]

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