

# X234/301

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NATIONAL  
QUALIFICATIONS  
2009

MONDAY, 18 MAY  
9.00 AM – 11.30 AM

BUSINESS  
MANAGEMENT  
HIGHER

Candidates should attempt **all** questions in Section **One** and **two** questions from Section **Two**.

Read all the questions carefully.

100 marks are allocated to this paper.

50 marks for Section **One** and

50 marks for Section **Two**.

Answers are to be written in the answer book provided.



## SECTION ONE

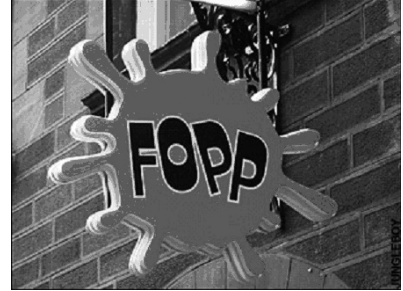
**This section should take you approximately 1 hour 15 minutes.**

**Read through the following information, then answer the questions which follow.**

### **700 Staff Made Redundant At Fopp**

#### **Background**

Fopp was set up in the early 1980s by Gordon Montgomery. It grew from a market stall in Glasgow into the largest independent music chain in the country with a flagship store on London's Tottenham Court Road. Over the past 7 years it has expanded from 5 to 105 stores, specialising in offbeat music, sold at "no-nonsense" prices of £8–£12. Fopp became the third largest high street music retailer employing over 1,000 staff.



With rising interest rates putting pressure on the company, the recent closure could not be halted. Gordon Montgomery said they had not anticipated the continual increase in interest rates when purchasing Music Zone, a rival retailer.

#### **The Fall of Fopp**

Approximately 700 workers at Fopp were made redundant by the company's administrators Ernst & Young. They said that the redundancies were "unfortunate" but that Fopp was not in a position to resume trading.

Fopp's stores were shut after the administrators were called into the struggling business. The 105-branch retailer was forced to close after being plagued by price reductions, coupled with stiff competition from online retailers and supermarkets. Jobs were cut nationwide, with London's Tottenham Court Road store the worst hit – losing 30 members of staff. However, store managers across the country are to keep their jobs while Ernst & Young assess the prospects for re-opening. Also attributed to Fopp's problems was the purchase of 67 Music Zone stores, placing added pressure on the firm's cash flow.

"We urged anyone with a genuine interest in taking on stores as going concerns to contact us immediately," said Tom Burton of Ernst & Young. "However, confidence in the music industry is at an all time low and we could not attract financial backing from any entrepreneurs."

#### **The Music Industry**

The music industry as a whole had felt the competitive and economic pressures in a very cut throat market. Despite rapidly increasing demand, music producers and sellers have struggled to maintain sales revenue, as downloads and illegal copies drive down volumes and sales margins. Yet music has never been played so widely, with loudspeakers sprouting in every public space, and earphones adorning every ear not glued to a mobile phone. However, global CD sales have fallen 10% to £1.7bn, according to the International Federation of the Phonographic Industry (IFPI).

Fopp fell victim to the same pressures that forced Tower Records to file for bankruptcy. Fopp saw a near-halving of pre-tax profits (to £48.1m) in 2006–7, as it fought a book and record discount war with e-tailers and big supermarket chains.

Fopp kept their stock of CDs for sale on the shop floor and, unlike supermarkets, CDs were kept in their actual case. This left it open to theft by customers and staff in the stores found it very difficult to control. Originally Fopp purchased their CDs from Poland cheaper than they could find suppliers in the UK. When Poland joined the EU the wholesale price of CDs rose to a similar cost of that in the UK and Fopp lost their source of cheap CDs.

CD trade was hit by the growing popularity of music downloads which doubled to more than 10% of the market in 2007 according to the IFPI. Continued growth in high-quality illegal copying, despite attempts to curb it by countries that have joined the World Trade Organisation, also hit the industry hard. While digital music sales are estimated to be growing at 50% per year, sales of CDs are tailing off, with the UK and US leading the fall. In fact UK music sales actually fell 8% in 2006 to £1.2 bn.

The next generation of technology is set to prompt further growth in demand for downloads. The music industry's inability to protect its legal rights remains a massive threat to profitability. Although some fans are responding to artists' appeals to keep paying for what they're playing, tougher encryption may be needed before there is any boom in sales.

### **Final Fopp**

Fopp was offered a last-ditch rescue package in a move that could have ensured the company's survival saving hundreds of jobs. HBOS, Fopp's bank, offered to install a Chief Restructuring Officer at the retailer to implement a turnaround strategy. The move, which would still have led to a number of store closures, is understood to have been declined by Fopp's management. The bank is also understood to have offered to extend Fopp's overdraft if the retailer accepted its proposal.

A source close to Fopp said the offer of restructuring came when accountants from Ernst & Young had already been reviewing the company's performance. "It was too late," said the source.

Like music itself all good things come to an end. Fopp it seems has gone past its sell by date. From its original and much loved idea amongst music lovers, the Glasgow company failed to gain support from stakeholders and closed its doors.



Adapted from [www.scotsman.com](http://www.scotsman.com)  
[www.bbc.co.uk](http://www.bbc.co.uk)

[Turn over

## QUESTIONS

**You should note that although the following questions are based on the stimulus material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.**

**Answer ALL the questions.**

- |  |                      |
|--|----------------------|
| <p>1. Identify the problems faced by Fopp and the music industry. You should use the following headings. (Please identify problems only, solutions will not be credited.)</p> <ul style="list-style-type: none"> <li>• Marketing</li> <li>• Finance</li> <li>• Operations</li> </ul>                                   | <b>10</b>            |
| <p>2. (a) Initially Gordon Montgomery was a sole trader, however, he eventually operated Fopp as a private limited company. Explain <b>3</b> reasons why an organisation would become a private limited company.</p> <p>(b) Describe how <b>5</b> different stakeholders of Fopp could influence the organisation.</p> | <b>3</b><br><b>5</b> |
| <p>3. The management of Fopp use financial budgets. Explain why managers use cash budgets.</p>   | <b>5</b>             |
| <p>4. Describe <b>3</b> pricing tactics that could be used when an organisation attempts to break into a new market.</p>   | <b>6</b>             |
| <p>5. The use of the most up-to-date technology is extremely important in the music industry.</p> <p>Describe the benefits to an organisation of investing in new technology.</p>  | <b>5</b>             |
| <p>6. Fopp employed a large number of temporary and part-time staff.</p> <p>Discuss the effects on an organisation of employing staff on temporary contracts.</p>  | <b>4</b>             |
| <p>7. (a) A decision was made by Fopp's directors to purchase the Music Zone stores. Describe how a manager could assess the effectiveness of a decision.</p> <p>(b) Explain the factors that could affect the quality of a decision made by a manager.</p>  | <b>4</b><br><b>4</b> |
| <p>8. Discuss the importance of quality inputs in the operations process of an organisation.</p>   | <b>4</b>             |
|  | <b>(50)</b>          |

[END OF SECTION ONE]

**SECTION TWO**

*Marks*

**This section should take you approximately 1 hour 15 minutes.**

**Answer TWO questions.**

1. (a) It is becoming more popular to purchase products online. Explain the advantages to an organisation of selling products over the Internet. **4**
- (b) Distinguish between the terms quantitative and qualitative information. **2**
- (c) The introduction of new technology may cause unrest in the workplace. Describe **4** forms of industrial action. **4**
- (d) Describe **4** methods of field research. **8**
- (e) (i) Draw a diagram to illustrate how you would manage stock control effectively (your diagram should be correctly labelled). **3**
- (ii) Describe different stages involved in setting an appropriate stock level. **4**
- (25)**
2. (a) Most organisations group their activities by function. Describe the advantages and disadvantages of functional grouping. **5**
- (b) Discuss the effects of outsourcing on an organisation. **5**
- (c) Explain how external factors may affect an organisation. **6**
- (d) (i) Describe the recruitment process that may be used by a Human Resource Department. **5**
- (ii) Discuss methods that an organisation could use to ensure their staff stay motivated. **4**
- (25)**
3. (a) Describe the problems that can occur when using only accounting information to analyse performance. **4**
- (b) Describe the actions an organisation could take to improve the following ratios:
- Net Profit Percentage
  - Current Ratio **6**
- (c) Discuss the effects on an organisation of branding their products. **6**
- (d) Some organisations still sell their original product a number of years after it was first launched. Explain how extension strategies can prolong the life of a product. **6**
- (e) Justify why strategic decisions are made by senior managers. **3**
- (25)**

**[Turn over**

**SECTION TWO (continued)**

- |         |  |             |
|---------|--|-------------|
| 4. (a)  | Discuss the effects of widening the span of control.   | 7           |
| (b) (i) | Describe the different forms of training that an organisation could use.   | 6           |
| (ii)    | Describe the costs of staff training.  | 4           |
| (c) (i) | Describe <b>3</b> types of production available to organisations.  | 3           |
| (ii)    | Explain the factors that would affect the choice of production method used.  | 5           |
|         |  | <b>(25)</b> |
| 5. (a)  | Explain how the following legislation could impact on an organisation:   |             |
|         | • Freedom of Information Act 2002  |             |
|         | • National Minimum Wage Regulation 1999  |             |
|         | • Employment Rights Act 1996.  | 6           |
| (b) (i) | Describe <b>3</b> different methods of growth.   | 3           |
| (ii)    | Describe and justify <b>3</b> sources of finance that could be used to expand a business.  | 6           |
| (c)     | Describe the advantages and disadvantages of gaining approval from the British Standards Institution (BSI).  | 4           |
| (d)     | Many organisations segment their market by gender eg male or female. Describe <b>6</b> other methods that an organisation could use to segment their market. | 6           |
|         |  | <b>(25)</b> |

[END OF QUESTION PAPER]

## ACKNOWLEDGEMENTS

Section One—Article is adapted from “Fopp is biggest independent chain”, 6 February 2007, and “Music chain Fopp sheds 700 jobs”, 3 July 2007, are taken from **www.bbc.co.uk**. Reproduced by kind permission of BBC News.

Section One—Article is adapted from “Deal in the bag as Fopp snaps up Music Zone stores” by Hamish Rutherford, 6 February 2007; “Stores closed, staff unpaid and jobs at risk as Fopp goes into administration” by Hamish Rutherford, 30 June 2007; “Niche record store chain must lose 700 jobs in fight for survival” by Fergus Sheppard, 4 July 2007, taken from *The Scotsman*. Reproduced by permission of Scotsman Publications Ltd.

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