Centre Number						Candidate Number				
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Other Names										
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
January 2010

Business Studies BUSS2

Unit 2 Managing a Business

Thursday 21 January 2010 1.30 pm to 3.00 pm

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(c), 1(d), 2(c) and 2(d) should be answered in continuous prose. In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Areas outside the box will not be scanned for marking

Answer **all** questions in the spaces provided.

1 Read the **case study** below and then answer the questions that follow.

The Authentic Food Company Ltd

Lak and Kamal Basran established *The Authentic Food Company Ltd (TAFC)* in 1985 to sell a range of frozen Indian foods. Lak's entrepreneurial talents complemented his wife's cooking skills and they have been successful in their aim of expanding the company. The company has earned a reputation for supplying high quality frozen foods to restaurants, hotels and shops. The company has become the market leader in its part of the frozen foods market. It has also entered new markets, opening a restaurant in Manchester and supplying cruise liners.

TAFC supplies its customers with products designed to meet their individual needs. As a result of market research, it has widened its product portfolio to include foods from China, Mexico and many Mediterranean countries. As the company has grown, it has opened new factories and used more technology in its operations by investing £1 million in the latest production line equipment.

The company's workforce has expanded from 120 employees in 2003 to over 230 in 2009. Additional staff have been appointed to manage the company's new IT systems and its increased product range. The company invests heavily in training its employees, believing that they play a key part in helping it to expand into new markets. New employees receive induction training and a full nine-week training plan. All receive individual training often leading to vocational and professional qualifications in areas such as information technology and food preparation.

TAFC uses teams in all its activities and empowers its employees by involving them in decision-making. It supports its employees in social activities, for example, raising funds for charity. *TAFC*'s labour turnover figure of 8% is low for a manufacturer. Employees who perform well can receive promotion and up to 40% of their salary as a bonus. Its employees have three times voted it as one of Britain's best employers.

In 2009, a company director said that rising costs had been a problem and had reduced the company's profit margins by 6%. Controlling costs in the future would be important.

Source: adapted from *www.theauthenticfoodcompany.com*

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1 (a) Explain **two** possible reasons why *The Authentic Food Company Ltd* has a policy of developing new products.

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(5 marks)

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Question 1 continues on the next page

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1 (b) Analyse **two** possible reasons why *The Authentic Food Company Ltd* might decide to spend less on training its employees.

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1 (c) To what extent has *The Authentic Food Company Ltd*'s products been the most important element of its marketing mix?

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1 (d) Motivational techniques have been the main method used by *The Authentic Food Company Ltd* to create an effective workforce. Do you agree with this view? Justify your decision.

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Turn over for the next question

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2 Read the **case study** below and then answer the questions that follow.

Warwick Clothing Ltd

Alan Holding owns 40% of the shares of *Warwick Clothing Ltd* and manages the business. The company supplies specially designed clothing to other businesses. Its most popular items include jackets and coats carrying the names and logos of businesses, company uniforms and customised sportswear. Alan is keen to see his business grow.

Despite operating in a competitive market in which overall demand has been falling, *Warwick Clothing Ltd* has enjoyed rising sales. This has been due to winning large orders from major business customers such as Tesco. However, profitability has been a concern for the company's shareholders. The company has also suffered from declining levels of customer service shown by the rising number of customer complaints.

Some of the company's key financial data are shown in **Figures 1** and **2** below.

Figure 1: Financial Data for 2009–2010

	£000s
Sales revenue	46 200
Fixed costs	12 220
Labour costs	15 500
Material costs	13 425
Fuel and other costs	3 900

Figure 2: Financial and Operations Data

	2008–2009	**2007–2008**
Sales revenue (£000s)	£45 250	£42 125
Net profit margin	4.1%	4.9%
Capacity utilisation of factory	88%	81%
Unit cost	£14.88	£14.01
Satisfaction with customer service	74%	87%

Because of low levels of profitability, Alan has implemented a piece-rate system of pay which has proved unpopular with some workers, although there is some evidence that unit costs have started to fall since 2009. In addition, he has cut expenditure on training. These decisions may have contributed to the company's level of labour turnover rising from 10% to 25% over the past year. The company has also had problems with cash flow and has exceeded its overdraft limit several times. Alan has taken action to delay outflows of cash wherever possible.

The company's factory has been operating near to full capacity in recent months. Alan was delighted to win a very large order to supply an airline with uniforms if 90 days' trade credit was offered and high standards of quality were achieved. The order was initially for six months with the possibility of a further three-year contract. To meet the initial order, Alan decided to sub-contract the work to a supplier in Vietnam who has low costs and was recommended to him by one of his customers. Alan believes that this will be the best way to supply the airline's order.

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2 (a) Calculate *Warwick Clothing Ltd*'s net profit margin for the 2009–2010 financial year.

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Question 2 continues on the next page

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2 (b) Analyse **two** possible causes of the fall in the level of customer service given by *Warwick Clothing Ltd*.

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2 (c) Do you agree with Alan's decision to sub-contract work to another supplier to meet the increased level of sales? Justify your decision.

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2 (d) Discuss which poses the greater threat to *Warwick Clothing Ltd*'s future success: problems with cash flow **or** low levels of profitability.

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END OF QUESTIONS

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