



GCE AS/A level

1082/01

BUSINESS STUDIES

BS2

P.M. THURSDAY, 21 January 2010

1³/₄ hours

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ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **all** questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (question 3(e)).

Answer **all** the questions.

1. Extending the Product Life Cycle



Nutri-Grain, a cereal bar originally designed for those who missed breakfast, was launched by Kellogg's in 1997 and was immediately successful; it gained almost 50% of the growing cereal bar market in just two years. These sales continued to grow as new flavours and sizes were introduced, reaching their peak in 2002. Although the overall market for cereal bars continued to increase, sales of Nutri-Grain began to decline. Kellogg's now had to make a key business decision. Should it withdraw the product from the market or try to extend its life?

Detailed market research was undertaken and it was decided to attempt to revive Nutri-Grain's fortunes. An extension strategy was implemented and, as a result of the measures undertaken in relation to the product's marketing mix, the Nutri-Grain brand achieved a retail sales growth almost three times that of the cereal bar market. More importantly, significant growth was maintained.

- (a) Describe, with the aid of a diagram, Nutri-Grain's product life cycle. [6]
- (b) Explain the changes to Nutri-Grain's marketing mix which Kellogg's might have considered when deciding on its extension strategy. [6]



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2. Designer Garden Sheds

Designer Garden Sheds (DGS) was founded five years ago by Fred Skinner. He manufactures and constructs wooden garden sheds and summerhouses which are designed to meet specific customer requirements. The customers provide the drawings of what they require and Fred builds them. He prides himself on producing unique items and he has built up an excellent reputation for providing a top quality service. Fred considers that **adding value** is essential to the success of his business.

Fred used the £60 000 he received from a redundancy package to set up the business and has not looked back since. The only aspect of the business that he dislikes is keeping on top of his financial records. He leaves this to Nadia who works as an accountant and who constantly has to remind Fred to chase payments and pay his own bills more promptly.

Nadia wants to meet Fred to discuss the current financial position that DGS is in and she has e-mailed him the balance sheet that she has recently drawn up. Nadia has particular concerns over the amount of **working capital** in the business, especially as spring, a particularly busy time for Fred, is fast approaching.

Designer Garden Sheds Balance Sheet as at 31.03.09

	£	£
Fixed Assets		
Machinery and tools		52 300
Van and trailer		25 200
		77 500
Current Assets		
Stocks (wood, fixings, preservatives)	5 120	
Debtors	73 450	
Cash at bank and in hand	5 550	
	84 120	
Less Current Liabilities		
Trade creditors	62 490	
Loan	20 000	
	82 490	
Working Capital (net current assets)		(i)
Net Assets		(ii)
Financed by:		
Opening capital		60 000
Add Net profit		(iii)
Less Drawings		28 500
Capital Employed		79 130

- (a) With reference to DGS, explain the terms:
- (i) *trade creditors*; [3]
 - (ii) *drawings*. [2]
- (b) Using DGS as an example, explain the concept of *adding value*. [4]
- (c) From the balance sheet of DGS, calculate the following:
- (i) working capital; [1]
 - (ii) net assets; [1]
 - (iii) net profit. [1]
- (*Write your answers in the answer book.*)
- (d) What is *working capital* and why might Fred's accountant be concerned about the amount on the balance sheet? [6]

Turn over for question 3.

3. Pickering's Shoes Ltd seeks new markets

A long-established family firm employing 350 people, Pickering's manufactures and retails good quality shoes through 60 stores in the UK. It also supplies a number of European retail markets.



The move into the European market helped the business survive the last recession. The firm had built up a good network of **agents** and Pickering's shoes are now distributed in outlets across many European countries.

However, the economic downturn of 2008 was causing the Managing Director and major shareholder of the firm, Harry Pickering, considerable concern. Sales had fallen steadily in its own stores in the UK and many of the retail customers that Pickering's supplied in Europe were cutting back on orders. A recent review of the company's **human resources plan** had been undertaken, which resulted in some of the workforce being placed on a four-day week.

Harry's daughter Jayne, the firm's Product Development Manager, had been working on a range of industrial protective footwear in order that Pickering's could diversify and sell to industrial, as well as retail, markets. The current Marketing Manager, who would soon be retiring, had no experience of **industrial marketing** and he felt that his senior assistant, Mal Brookes, would be an ideal candidate to take charge of the new project.

Mal, a marketing graduate who had been with the firm for four years, had Jayne's support and she urged her father to give him the job. It had always been Harry's policy to recruit externally when appointing people to senior management positions and he was reluctant to change his policy now, especially as this project was so important to the firm's future. **Harry told Jayne: "Recruiting senior managers internally has more drawbacks than benefits** in my opinion, and I think we should advertise the post externally as soon as possible. Sales are in decline and we are only operating at 60% capacity. It is vital that we return to full **capacity utilisation** in the very near future if we are to remain competitive. The success of this new project is the key to our survival".

- (a) Explain the key features of a *human resources plan* for a business such as Pickering's. [6]
- (b) Explain how *agents* might have been useful to Pickering's when entering European markets. [4]
- (c) How might *industrial marketing* differ from the type of marketing that Pickering's carries out when selling shoes to consumers through its retail stores in the UK? [6]
- (d) (i) What is *capacity utilisation* and how is it measured? [4]
- (ii) Consider the advantages and disadvantages, to businesses such as Pickering's, of working at **full** capacity. [8]
- (e) Evaluate Harry Pickering's view that: *Recruiting senior managers internally has more drawbacks than benefits*. [12]

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