



GCE AS/A Level

2510U20-1 – **NEW AS**



BUSINESS – Unit 2
Business Functions

P.M. TUESDAY, 24 May 2016

2 hours

2510U201
01

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a (pink) WJEC 20 page answer booklet, which has been specifically designed for this examination paper. No other style of answer booklet should be used.
- a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use pencil or gel pen. Do not use correction fluid.

Answer **all** questions.

Write your answers in the separate answer book provided following the instructions on the front of the answer book.

INFORMATION FOR CANDIDATES

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

You are reminded of the need for good English and orderly, clear presentation in your answers.

Answer all the questions.

1. Suitcase manufacturers in crisis as workers pack their bags

At the monthly board meeting of Carry Light Ltd, Julie Soames, the Financial Director was about to present the first item on the agenda – the company's cash flow forecast for the next six months. However, Managing Director, Peter Braithwaite, had some news which would mean that the forecast that Julie had constructed would need to be revised. 'I am sorry to have to tell you all, but one of our major suppliers informed me yesterday that they are going to put their prices up and this will increase our raw material costs by 10% from the start of September. In fact, September is going to be made even more difficult. As you may be aware, we have been losing experienced skilled workers from the shop floor to the new furniture factory on the industrial estate. I have, therefore, promised the trade unions that all wages will rise by 3% in September in an attempt to lower labour turnover.'

Alex Owen, the Human Resources Director was furious and could not contain his anger any longer. 'The problem with this business is that so many of our overpaid managers rarely communicate with the workforce. I have been arguing for a long time now that raising wages is not a long-term solution to our workforce problems. So many of our shop floor workers are de-motivated and the reduction of the human resources budget over the last three years is now proving to be a big mistake. If we are to improve productivity we must introduce an **apprenticeship** scheme, as well as investing in **training** for all our shop floor workers. It is plain for everyone to see that the **hierarchy** in this organisation is far too tall: if we do not undertake some **delaying** soon we may all be seeking new jobs!'

Cash flow forecast for Carry Light Ltd (Six months – April to September 2016)

Bank Overdraft Limit: £100 000

| | £000s | £000s | £000s | £000s | £000s | £000s |
|---------------------------|-------|-------|-------|-------|-------|-------|
| | April | May | June | July | Aug | Sept |
| Sales Receipts | 1900 | 1650 | 1500 | 1700 | 1550 | 1700 |
| Wages | 300 | 300 | 300 | 300 | 300 | 300 |
| Raw materials | 975 | 970 | 950 | 965 | 980 | 980 |
| Fuel | 34 | 37 | 35 | 34 | 37 | 37 |
| Electricity | 32 | | | 28 | | |
| VAT | 380 | 330 | 300 | 340 | 310 | 340 |
| Administration | 25 | 25 | 25 | 27 | 27 | 28 |
| Advertising | 22 | 22 | 22 | 22 | 22 | 22 |
| Insurance premiums | | | | | | 65 |
| Loan repayments | 42 | 42 | 42 | 42 | 42 | 42 |
| Staff car leasing charges | 14 | 14 | 14 | 14 | 14 | 14 |
| Total Payments | 1824 | 1740 | 1688 | 1772 | 1732 | 1828 |
| Net Cash Flow | 76 | (90) | (188) | (72) | (182) | (128) |
| Opening Balance | 540 | 616 | 526 | 338 | 266 | 84 |
| Closing Balance | 616 | 526 | 338 | 266 | 84 | (44) |

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 What is an *apprenticeship*? [4]
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 Explain **two** benefits to Carry Light Ltd of investing in *training* of its shop floor workers. [6]
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 What is meant by the term *hierarchy*? [3]
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 What is *delaying* and to what extent will it benefit an organisation such as Carry Light Ltd? [8]
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 With reference to motivational theorists you have studied, to what extent do you agree with Alex Owen's view, 'that raising wages is not a long-term solution to our workforce problems'? [12]
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 Taking into account the increases in both raw material costs and wages, recalculate the closing balance in September for Carry Light Ltd's cash flow forecast. (*Clearly show all your workings*). [5]
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 What might be the implications for Carry Light Ltd of exceeding its overdraft limit? [3]
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 Carry Light Ltd needs to improve its cash flow situation. Evaluate possible ways in which it might do this. [10]

2. Hiut brings making jeans back to Cardigan

In November 2002 Dewhirst, whose mass produced jeans were sold by retailers such as Marks and Spencer and Gap, closed its factory in Cardigan on the west Wales coast and moved its operations to Morocco, where they hoped to achieve greater **efficiency**. The 400 employees in Cardigan, who were then producing 35 000 pairs of jeans per week, were made redundant.

However, in 2012, local husband and wife entrepreneurs, David and Clare Hieatt, using the expertise of some of the best of Dewhirst's former employees, established their own premium brand of jeans. In 2016, the 14 highly motivated workers at the Hiut Denim Company manufacture 200 pairs a week; but with prices ranging between £130 and £230 a pair, they supply a very different market. Whilst they do supply a very small number of exclusive denim stockists across the world, the vast majority of their sales are made through their highly creative website.

Fig 1 Each pair is signed by the maker.



Fig 2 Each history tag is unique.



The jeans are made individually using **job production methods** in small premises on an industrial estate in Cardigan by expert cutters and machinists who gained their skills when formerly employed by Dewhirst. Each pair of jeans is made from top quality denim sourced from Turkey and Japan, using individual measurements sent in by customers via the company's website. In addition, each pair made has a 'history tag' sewn into it with a unique number and the signature of the maker. When the customer registers the number at *historytag.com* they can see photos of their jeans being manufactured and even upload pictures of themselves wearing the jeans in the future.

The business was launched with a series of tweets. 'There was no big announcement. We didn't have any marketing budget, so we put it on Twitter', say the Hieatts. 'That led to articles in the Sunday Times and the Independent which helped spread the word via social media. We received orders for 400 pairs and, back then, we were only able to make 10 pairs a day. As a result we had to stop taking orders for two months and informed people that their jeans would not be ready for a while.'

David Hieatt believes that, 'smart-phones are portable shopping centres and have transformed the way people shop'. Social media has played a very significant part in helping the business reach customers all over the world. It has also gained some very influential customers – including the Manic Street Preachers and Gruff Rhys from the Super Furry Animals. Ant and Dec wore Hiut jeans on the latest series of 'I'm a Celebrity' and gave the company an unexpected boost by tweeting how much they liked the jeans to 3.2 million followers. 'Celebrities have incredible power, and when your coffee budget is more than your marketing budget it's great, because we cannot afford to reach our customers by traditional **above-the-line** methods of promotion.'

Sources: *www.prweek.com* and *www.theguardian.com*

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 Calculate the labour productivity per week of both the Dewhirst workers in 2002, and the Hiut Denim Company workers in 2016. [3]
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 Explain why improving *efficiency* would be very important to a business such as Dewhirst. [4]
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 Assess the suitability to the Hiut Denim Company of using *job production methods*. [8]
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 Outline what is meant by *above-the-line* promotion. [2]
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 Discuss the view that the most important element of the Hiut Denim Company's marketing mix is promotion. [12]

END OF PAPER

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