

General Certificate of Education
January 2006
Advanced Level Examination

BUSINESS STUDIES
Unit 5

BU5W



Friday 20 January 2006 Afternoon Session

For this paper you must have:

- a 12-page answer book

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BU5W.
- Answer the **compulsory** question from **Section A** and **one** question from **Section B**.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 84.
4 of these marks will be awarded for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

SECTION A

Answer this question. You should spend up to 50 minutes on this section.

1**Total for this question: 40 marks****Gent plc**

Gent plc produces a range of white goods such as washing machines, dishwashers and microwave ovens. These are sold in the UK and continental Europe. Following a period of very poor financial results, there is now intense pressure from Gent plc's major shareholders for the managers to improve the firm's profitability significantly over the next two to three years. The newly appointed Managing Director of Gent plc's microwave oven division believes that the business should acquire one of its competitors, Satso plc. Both companies produce basic models of microwave oven, but Satso plc, which focuses exclusively on the microwave oven market, also produces premium models. These have more features than the basic models of microwave oven, such as a combined microwave and traditional oven or a combined microwave and grill. Both Gent and Satso are well-known brands.

As an independent management consultant, write a report to the Board of Directors of Gent plc analysing the case for and against the proposed takeover of Satso plc and providing a fully justified recommendation about whether it should go ahead.

(2 marks are available for appropriate report format)

APPENDIX A: UK market data for microwave ovens

| | 2001 | 2005 | |
|---|-------------|-------------|--------------------|
| Market sales volume (units) | 2.5 m | 2.3 m | <i>(8 % fall)</i> |
| Market sales value | £230 m | £196 m | <i>(15 % fall)</i> |
| % of households owning at least one microwave oven | 79 | 79 | |
| % of sales through supermarkets or catalogue stores | 30 | 42 | |
| Average replacement period for a microwave oven | 7 years | 5 years | |

APPENDIX B: Breakdown of UK microwave oven market

| | 2001 | | | 2005 | | |
|----------------|-----------------------|----------------------|------------------------|-----------------------|----------------------|------------------------|
| | Sales Volume % | Sales Value % | Average Price £ | Sales Volume % | Sales Value % | Average Price £ |
| Basic models | 75 | 57 | 70 | 71 | 50 | 60 |
| Premium models | 25 | 43 | 158 | 29 | 50 | 148 |

APPENDIX C: Data on Gent plc's microwave oven division and Satso plc 2005

| | Gent plc <i>(microwave oven division)</i> | Satso plc |
|--|---|------------------|
| Capacity (units) | 1 000 000 | 550 000 |
| Total sales (units) | 550 000 | 450 000 |
| UK sales (units) | 400 000 | 230 000 |
| UK market share | 17 % | 10 % |
| % of UK sales through supermarkets or catalogue stores | 56 | 29 |
| Spending on research and development as % of sales | 0.5 | 3.5 |
| Organisational structure | Functional | Matrix |
| Average remuneration per employee | £22 000 | £25 000 |
| Number of employees | 800 | 500 |
| Union members | 240 | 400 |
| % of shares owned by employees | 0.2 | 9 |
| Return on capital | 4 % | 18 % |

APPENDIX D: Balance sheet of Satso plc as at 7 January 2006

| | £m |
|-----------------------|-----------|
| Tangible fixed assets | 21 |
| Net current assets | (1) |
| Assets employed | 20 |
| Long-term liabilities | 1 |
| Issued share capital | 10 |
| Reserves | 9 |
| Capital employed | 20 |

APPENDIX E: Details of Gent plc and the proposed takeover of Satso plc

| | |
|--|---|
| Mission statement of Gent plc | “To be a leader in the white goods sector, providing a high return for our investors whilst acting in a socially responsible manner.” |
| Turnover of Gent plc's microwave oven division as % of total company sales in 2005 | 14 % |
| Proposed bid offer for Satso plc | £22 m |
| Financial structure of the takeover bid | Cash offer with 80 % financed by loan capital |
| Ownership of Satso plc | 84 % institutional investors; 16 % private investors |

APPENDIX F: Economic and demographic data

| | 2005 | 2008 (forecast) |
|------------------------------------|-------------|------------------------|
| Index of UK real GDP* | 100 | 107 |
| Index value of the pound in euros* | 100 | 92 |
| UK interest rate | 4.75 % | 5 % |
| Number of UK households | 26 m | 26.3 m |

* base 2005 = 100

Turn over for the next section

SECTION B

Answer **one** question from this section.

- 2 BP is a global energy business involved in the exploration for, and the production and retailing of oil and gas. Its profits in the first half of 2004 were \$8.6bn. Nowadays, to what extent is profit a good indicator of the success of a business such as BP? *(40 marks)*

- 3 Over 50% of the annual sales of toys in the UK occur between October and December. Discuss the possible implications of this for firms operating in this industry. *(40 marks)*

- 4 In 2004, the managers of Jaguar, the luxury car maker that is owned by Ford, announced that it was closing one of its factories as a result of unfavourable macro-economic conditions. To what extent is Jaguar's competitiveness likely to be determined by macro-economic factors? *(40 marks)*

- 5 The UK tobacco industry is under attack from pressure groups and from changes in government legislation. Evaluate the possible implications of these developments for the strategies of tobacco companies. *(40 marks)*

END OF QUESTIONS