

General Certificate of Education  
June 2004  
Advanced Level Examination

**BUSINESS STUDIES**  
**Unit 5**

**BU5W**



Thursday 17 June 2004 Morning Session

**In addition to this paper you will require:**

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 in **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.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.
- Up to 4 marks will be awarded for the quality of your written communication.

**BU5W**

**SECTION A**

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

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

Hatten plc owns a number of out of town garden centres in the south of England. Since its stock market flotation in 2002, it has expanded rapidly, mainly through takeover. Each centre has an outdoor area selling plants, pots and garden furniture as well as an indoor area that sells products such as food, books and gifts. Competitors of Hatten plc include other garden centre chains, as well as high street retailers and Do It Yourself (DIY) stores such as B&Q, that also sell garden products. At a recent Board meeting, several of Hatten plc's directors argued that the business should continue to expand quickly; others believe that the firm has more important issues to deal with at this stage.

**You are a management consultant. Write a report to the directors of Hatten plc analysing the strengths and weaknesses of the firm's present situation. On the basis of this analysis, recommend whether continued fast growth should be the firm's priority.**

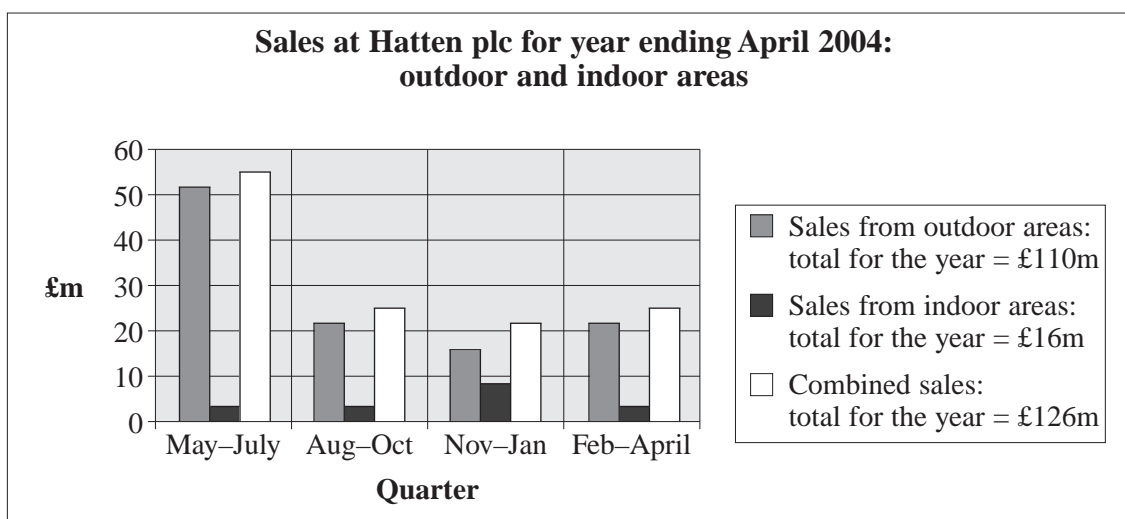
*(2 marks are included for appropriate report format.)*

**Appendix A: UK Market for Garden Products April 2002 – April 2004**

Year	Number of Hatten plc garden centres	Average number of garden centres in a chain	Market share held by all garden centres (%)	Market share held by DIY stores (%)
2002	90	30	32	30
2004	135	40	28	36

**Appendix B: People and operations data for Hatten plc**

	2002	2004
Number of full-time equivalent employees	1800	2800
Levels of hierarchy	3	5
Percentage of new staff leaving within one year	24%	36%
Training spending per employee	£550	£440
Index of real unit costs of supplies (base 2002)	100	83
Supplier lead time	28 days	21 days
Payment period to suppliers	40 days	62 days

**Appendix C: Sales and marketing data for Hatten plc**

	2002	2004
Total sales	£50m	£126m
Percentage of sales from indoor areas	15.1%	12.6%
Number of product lines	5000	8000

**Appendix D: Financial extracts from Hatten plc accounts**

	30 April 2002	30 April 2004
Gross profit margin	36%	46%
Net profit margin	10%	7%
Asset turnover	0.9	1.5
Return on capital	9%	10.5%
Working capital	£11m	£2.5m
Long term loans	£16m	£30m
Share price	160 pence	162 pence

**Appendix E: Forecast data 2005**

Total UK sales of gardening products	+ 12%
Change in interest rates	- 0.25%
Estimated impact on Hatten plc's <b>outdoor</b> sales of a 10% increase in annual rainfall	- £15m
Estimated impact on Hatten plc's <b>indoor</b> sales of a 10% increase in annual rainfall	- £0.5m

TURN OVER FOR SECTION B

Turn over ►

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**SECTION B**

Answer **one** question from this Section.

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- 2 NTB plc is a manufacturer of personal computers with a 10% share of the worldwide market. Its Chief Executive has recommended to the Board of Directors that the firm should diversify into the production of printers, as some of its competitors have done. Consider the factors that the Board of Directors of NTB plc might take into account before making its decision. (40 marks)
  
- 3 Several international food and drink producers have been criticised in the UK media for making large profits on their coffee products whilst paying low prices to the farmers that supply them. Discuss the possible consequences of such criticism for these firms. (40 marks)
  
- 4 Falst Ltd is a manufacturer of soaps, shampoos and conditioners. It sells these products directly to large hotel chains that put them in guests' rooms. Last week, Falst Ltd lost a big contract that it had held for many years and it has since discovered that it was undercut on price. Discuss the possible implications of this for the business. (40 marks)
  
- 5 Along with others in the industry, McDonald's, the worldwide chain of fast-food outlets, has experienced poor profits in recent years. In 2003, it announced its first ever loss. Analysts suggest that the company needs to introduce a programme of change to make the firm's culture "more innovative, more participative and more market orientated". To what extent is introducing such a programme likely to improve the performance of McDonald's? (40 marks)

**END OF QUESTIONS**