General Certificate of Education
January 2004
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

# BUSINESS STUDIES BUS4
## Unit 4

Tuesday 20 January 2004 Afternoon Session

**In addition to this paper you will require:**
- a 12-page answer book;
- Insert for use when answering question 4(a) (enclosed).

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 BUS4.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.
- Fill in the boxes at the top of the Insert. Make sure that you attach the Insert to your answer book.

**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.

Read the Case Study and answer **all** the questions that follow.

## Fritcher's Decision

The Devon Cider Company plc (DCC) had been Britain's number one for over 40 years. Its two main brands dominated cider distribution in pubs, clubs and off-licence outlets throughout the country. Yet the last few years had been awful. The rise and rise of Ready To Drink products such as *Bacardi Breezer* had dented cider sales, especially of the more profitable bottled ciders. Some pubs were bringing in own-label ciders; others were concentrating on beer. The market for cider was in decline and DCC was bound to suffer as a result.

Last summer, DCC Chairman, David Fritcher, responded decisively. Five of the company's twelve senior managers were made redundant and the workforce was cut back by 12%. As he told his fellow directors: "We have to cut our break-even point to ensure survival at lower levels of revenue." He even cancelled a new product launch because there was too little cash to market the product properly. Nevertheless, he showed his faith in the long-term future of the business by keeping all four production sites open.

As a result of the cutbacks, the 2003 accounts did not look too bad. A 7% fall in turnover was matched by a comparable fall in operating costs. Now, at the start of 2004, David could take the next steps forward. He decided not to hold meetings with senior and middle managers as this "would only waste time – and time is precious". David placed greater faith in a team of senior executives from the independent business consultants: Consultancy Management plc.

David's biggest hope for 2004 was a new product, code named *Revival*, an idea that stemmed from a remarkable discovery made by DCC's small Research and Development team. The product developers had stumbled upon a new type of soft drink. Apple-based, but non-alcoholic, it formed and held a frothy, creamy head, like a *Guinness* or a cappuccino. Market research had singled it out as a winner, with a sales potential of £40 million a year. Importantly, DCC had been able to patent the process, so the giant soft drink companies would not be able to copy it.

Nevertheless, David was realistic enough to know that rivals would already be looking at the patent, as it had been publicly available at the Patent Office since before Christmas. They would not be able to copy DCC's method exactly, but would be looking for slightly different ways to achieve the same outcome. DCC had to hurry to beat others to the market and work hard to establish a strong brand image and strong retail distribution, while it had the market to itself. David's confidence in the project was boosted when Consultancy Management plc announced that the new product "should make an ARR of over 18% and pay back in two years".

With this in mind, DCC's Operations Manager, Shkendi, started work on a network diagram to show how quickly the new product could be launched (see **Appendix A** on **Insert**). She decided to concentrate production of the new soft drink at one site in Exeter and switch existing cider production to the other sites. The current output level of 6 million litres per week was being produced by 500 production staff at a capacity utilisation level of only 57%. Shkendi chose Exeter on financial grounds, but also because it was close to Head Office. Therefore, it should be possible to avoid the communication problems that had been a feature of DCC in recent years. At the same time, Marketing Director, Jenny Bianchi, was arguing with David about the budget required to launch such a major brand. She had originally been a scientist working in the company's R & D department and the switch to marketing made no difference to her approach. She always liked to uncover as much factual evidence as possible before making a decision, hence the detailed information in **Appendix B**.

All the while, the Finance Director (FD) urged David to beware of over-extending the business. The FD wanted spending to be based upon the most cautious assumptions of the cash flows that might be generated by the new product. He was fond of reminding fellow directors that: "Our balance sheet is less than 1% of the size of Coca-Cola's, so we're bound to lose a battle in their marketplace." He was worried about the validity of Consultancy Management plc's investment appraisal, but, most of all, he wanted to see one of the four production sites closed down. He had prepared some data on this, which he was looking forward to explaining to DCC's Directors (see **Appendix C**).

Despite the concerns of some colleagues, David was fully committed to *Revival*. He called a management team meeting for the following Monday. He asked Jenny to prepare a fully justified request for the level of marketing budget she thought was needed and for Shkendi to complete her network analysis. With these issues settled, he felt confident that he could finalise an overall plan to take to the Board meeting later that week.

Despite the requests of other directors, David had never allowed a Human Resources Department to be established at DCC. He thought that personnel effectiveness was the responsibility of line managers. With the financial situation so tight, he wanted to develop a strategy for improving personnel effectiveness in order to reduce the labour cost per unit. At an average wage of £300 per week, factory pay levels at DCC were higher than most within the industry. Personnel issues such as these would add to the busy agenda for the Board meeting.

**Appendix A: Shkendi's nearly-completed network diagram** **Please see Insert.**

**Appendix B: Marketing data – UK cider market**

| | **2001** | **2002** | **2003** |
|---|---|---|---|
| **Cider market size (£m)** | 655 | 623 | 584 |
| **DCC market share** | 38.6% | 38.1% | 37.0% |
| **DCC spending on advertising (£m)** | 20.7 | 20.2 | 17.1 |
| **DCC spending on advertising as a % of sales** | 8.2% | 8.5% | 7.9% |
| **Other cider firms' spending on advertising as a % of sales** | 6.4% | 6.6% | 6.9% |

**Appendix C: DCC plc Financial data – prepared for the January 2004 Board Meeting**

| | **31 December 2001** | **31 December 2002** | **31 December 2003** |
|---|---|---|---|
| **Gross margins** | 34.6% | 35.1% | 35.9% |
| **Operating margins** | 7.1% | 6.6% | 6.3% |
| **Asset turnover** | 2.1 | 1.8 | 1.3 |
| **Acid test** | 0.88 | 0.81 | 0.59 |

**Turn over ▶**

**1** (a) Explain how Jenny might improve the reliability of her marketing decisions by using the marketing model. *(6 marks)*

(b) Discuss what you consider to be the best way for Jenny to settle upon a suitable marketing budget for the *Revival* launch. Use calculations to show how your chosen method would work in practice. *(14 marks)*

**2** (a) Examine why the Finance Director might have doubts about the ARR and payback calculations carried out by Consultancy Management plc. *(8 marks)*

(b) To what extent is the Finance Director right to worry about the launch of *Revival*? *(12 marks)*

**3** (a) (i) Calculate DCC's labour productivity level prior to the launch of *Revival*, and use the data to calculate the labour cost per litre. *(5 marks)*

(ii) Outline how improved labour turnover might help DCC's financial position. *(5 marks)*

(b) Consider why DCC may have been suffering from poor internal communications. *(10 marks)*

**4** (a) Add the Earliest Start Times and the Latest Finish Times for each activity to the network diagram shown in **Appendix A** on the **Insert**. Then state in your answer booklet the critical path and the total length of time it will take until the project is completed. *(10 marks)*

(b) Discuss how Shkendi might have made her decision to focus production at the Exeter site. *(10 marks)*

**END OF QUESTIONS**

| Surname | | Other Names | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Centre Number | | | | | | Candidate Number | | |
| Candidate Signature | | | | | | | | |

General Certificate of Education
January 2004
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

**BUSINESS STUDIES** **BUS4**
**Unit 4**

Tuesday 20 January 2004 Afternoon Session

Insert for use with Question 4 (a)

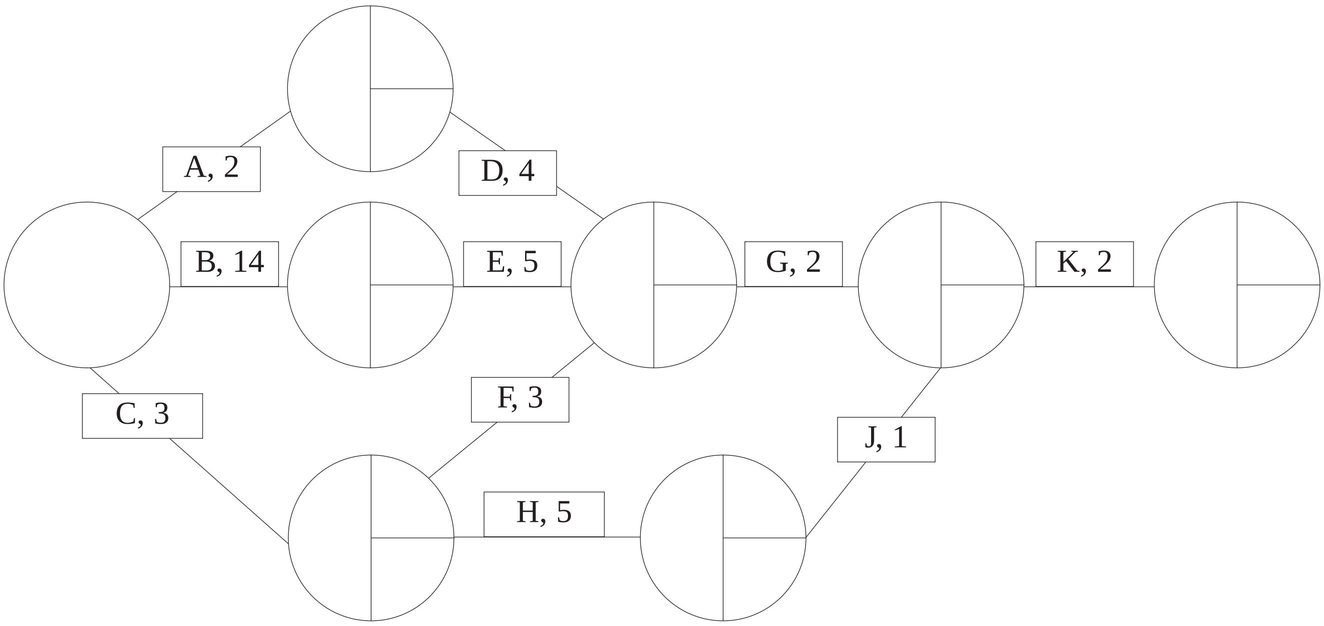
Fill in the boxes at the top of this page.

Fasten this sheet securely to your answer book.

**TURN OVER FOR APPENDIX A**

**Turn over ▶**

**Appendix A: Shkendi's nearly-completed network diagram**




| Activity | Explanation | Duration (weeks) |
|---|---|---|
| A | Selection of staff for re-training | 2 |
| B | Purchasing of specialist machinery | 14 |
| C | Research into packaging design | 3 |
| D | Re-training of staff | 4 |
| E | Setting up of production line | 5 |
| F | Printing and delivery of packaging | 3 |
| G | Stock building | 2 |
| H | Advertising to the retail trade | 5 |
| J | Consumer launch advertising | 1 |
| K | First two weeks' selling | 2 |