General Certificate of Education
January 2005
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

BUSINESS STUDIES **BUS4**
Unit 4

Thursday 20 January 2005 Afternoon Session

In addition to this paper you will require:
- a 12-page answer book;
- Insert for Appendix A and Figure 1.

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.

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.

A BLOOMING BUSINESS

Yewande had won the argument. She liked having her way. There had been opposition, especially from Paul Chang, the Director of Finance, but Yewande's dominant personality had prevailed.

The Board meeting was an important event for Tregory Growers Ltd. The company, based in Cornwall, had supplied bulbs and cut flowers for many years. Early summer flowers had long been Tregory Growers Ltd's best sellers. It had generated a small, but declining profit by supplying mainly small retailers with traditional varieties of cut flowers. However, increasing competition from abroad and changing consumer tastes meant that the company needed to re-think its strategy.

Yewande's appointment as Managing Director was a turning point for the company. In her first major presentation to the Board of Directors she set out her strategy for the future of Tregory Growers Ltd. "This market is changing and we have ignored it. Sales of cut flowers are increasing and customers are changing. Flowers grown overseas are becoming very popular. We must expand our product range and deal with bigger retailers." Yewande highlighted some statistics she had researched.

- The UK cut flower market is worth more than £1 billion per annum and sales have risen by 10% yearly since 2001.
- Increasing amounts of cut flowers are imported by air.
- Women now account for nearly two-thirds of the UK market.

"These views are supported by research we have carried out recently. In the past we have not invested in market research. We simply tried to sell more of our existing products by increasing our marketing expenditure, especially on advertising in trade magazines, on the Internet and using mail shots. My research (see **Appendix A**) shows that increasing our market budget beyond the current figure of £650 000 will not work."

"We cannot continue to base marketing decisions on guesses. We must take a more scientific approach to our decision making in this area."

The Kenyan Project

Yewande's ideas had caused much debate and had been discussed at several Board meetings, with a decision being reached at the most recent one.

In the first meeting Yewande had set out her aims. "We need to increase our sales of home grown flowers to small retailers, but also to win a contract from a supermarket chain such as Sainsbury's. We should provide a complete high quality service. I see us supplying flowers wrapped, priced and bar-coded. This would give steady sales throughout the year and justify the investment that we would need to make." To supply a supermarket, Tregory Growers Ltd would have to invest in new packing facilities using existing buildings. Forty workers would be necessary for packaging. This recruitment would increase the existing workforce by 50%; most of the existing workforce were skilled and had been with the company for many years.

Yewande pointed out that UK supermarkets were only interested in suppliers who could offer 30 or 40 different products all year. "The only way we can supply this service is to negotiate a deal with an overseas supplier. We would then fly the flowers into the UK and package them here."

Discussions had taken place with a grower in Kenya and prices had been agreed for a variety of cut flowers. A major UK supermarket was prepared to sign a one year contract with Tregory

Growers Ltd to buy a range of cut flowers grown in Cornwall and overseas on a daily basis. The contract stipulated that the first flowers should be delivered in 20 weeks' time. The Kenyan supplier could meet the deadline and transport (by air) did not seem to be a problem.

But would the packaging facilities be ready in time? Yewande insisted that a scientific approach was taken to this decision. Managers used critical path analysis, despite having little experience of the technique and having estimated some of the data they used. Yewande quoted the outcome of the analysis (shown in **Appendix B**) to justify her view that the Kenyan project should be approved.

At a later meeting Yewande explained that the company's Human Resource manager had researched the local labour market. Despite relatively low rates of unemployment in south Cornwall, she was confident that they would be able to recruit enough suitable employees. Yewande planned to pay the minimum wage. "We will use technology on the packaging line. Little training will be necessary and we'll employ unskilled workers on temporary contracts. This will keep costs to a minimum – we are investigating the use of a piece rate pay system and moving all our employees onto more flexible contracts."

Paul Chang was worried that the initial financial estimates were optimistic. His reworking of the original figures had resulted in two major revisions.

- Variable costs per box of flowers would be £40 – this was an average figure allowing for different types of flowers. The original estimate was £34 per box as shown in **Appendix C**.
- The fixed costs of the project would be £5 million per annum rather then £4 million.

Paul asked the Board to think carefully about the decision given his revised figures. "I'm not convinced this is the right action. This plan requires a substantial investment – we are increasing our borrowing by £10 million. We may benefit from a more even cash flow throughout the year, but we already have a shortage of working capital."

Other worries were aired. One director queried the wisdom of introducing short-term and temporary contracts. "We will have a dissatisfied workforce and a high labour turnover." Yewande was not worried. "This is a highly competitive, low margin market and it is vital to have a flexible workforce to keep labour costs to a minimum."

APPENDIX A

See separate sheet

APPENDIX B

Network data for setting up the packaging facilities for the Kenyan project			
Activity letter	**Activity**	**Preceded by**	**Duration (weeks)**
A	Clear buildings in preparation	–	2
B	Carry out modifications to buildings	A	8
C	Purchase packaging machinery	–	11
D	Install new packaging machinery	B, C	2
E	Decorate buildings	B, C	4
F	Train supervisory staff	D	1
G	Hire production staff	E, F	1
H	Test production run	G	1

Turn over ▶

APPENDIX C

Costs & revenues

	Original figures	**Paul's revised figures**
Fixed costs of the Kenyan project	£4 million	£5 million
Variable cost per box of flowers	£34	£40
Selling price per packaged box of flowers	£50	£50
Estimated sales	700 000 boxes	700 000 boxes

Other key financial data before a decision on the Kenyan project:

Capital Employed	£60 million
Sales turnover	£37 million
Net profit	£ 3.7 million
Long-term liabilities	£25 million
Liquid assets (debtors & cash)	£ 5.2 million
Current liabilities	£ 9.4 million

1 (a) Explain the factors that might influence the size of Tregory Growers Ltd's budget for marketing expenditure for the next financial year. *(8 marks)*

(b) Discuss whether Yewande is right to encourage the use of a scientific approach to marketing decisions in these circumstances. *(12 marks)*

2 (a) Use the information in **Appendix B** to construct a network diagram for the setting up of the packaging facilities. You should show:
- earliest start times;
- latest finish times;
- the critical path. *(10 marks)*

(b) To what extent might critical path analysis help Tregory Growers Ltd's Board of Directors to decide whether the packaging facilities will be ready on time? *(10 marks)*

3 (a) Paul produced some revised cost figures for the Kenyan project.

(i) Draw new fixed and total cost lines on the insert, **Figure 1**, to show Paul's revisions. *(5 marks)*

(ii) Mark the new break-even output on the graph. *(1 mark)*

(b) On the evidence of the graph and the other financial data available, was Yewande correct to persuade the other directors to accept the Kenyan project? Justify your answer. *(14 marks)*

4 Consider whether Yewande's approach to managing staff is in the best interests of Tregory Growers Ltd. *(20 marks)*

END OF QUESTIONS

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

General Certificate of Education
January 2005
Advanced Level Examination

BUSINESS STUDIES **BUS4**
Unit 4

Thursday 20 January 2005 Afternoon Session

Insert for Appendix A and use with Question 3(a) (i) and (ii).

Fill in the boxes at the top of this page.

Fasten this sheet securely to your answer book.

TURN OVER FOR APPENDIX A AND FIGURE 1

Turn over ▶

Appendix A: Correlation between marketing budget and sales

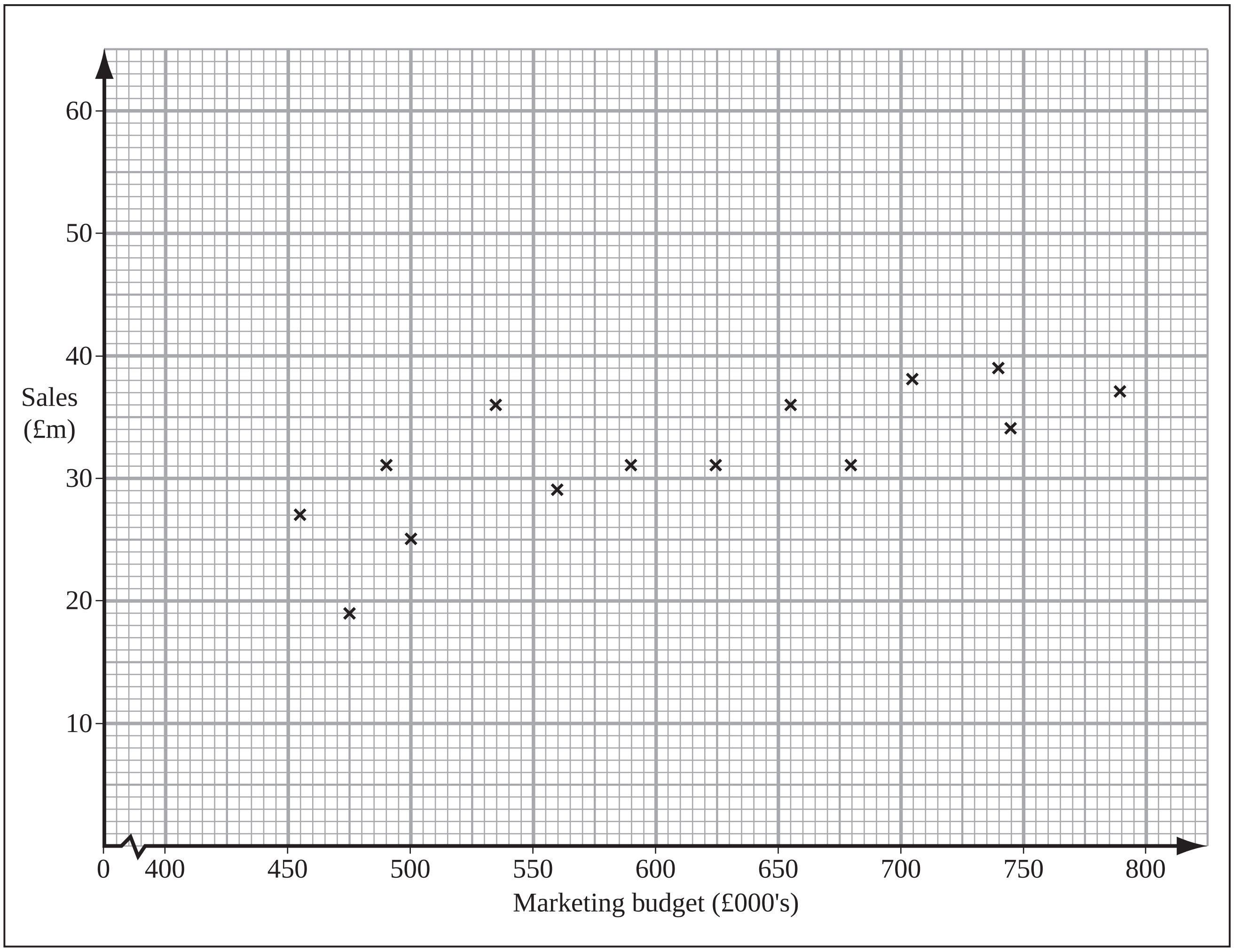
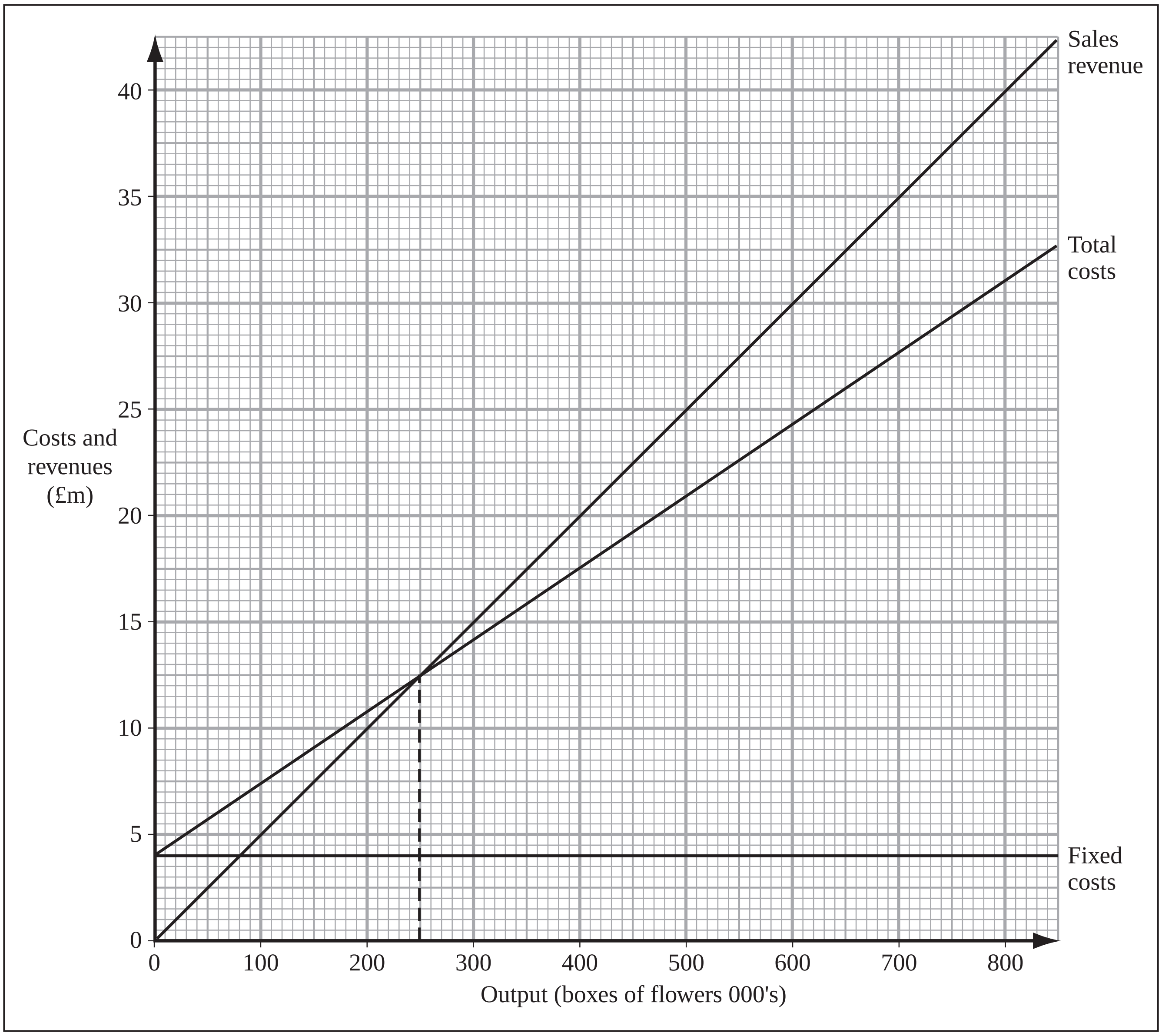


Figure 1: Original breakeven chart for the Kenyan Project



THERE ARE NO ITEMS PRINTED ON THIS PAGE