

General Certificate of Education
January 2003
Advanced Level Examination



BUSINESS STUDIES
Unit 5

BU5W

Monday 27 January 2003 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 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.
- 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.

SECTION A

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

1**Total for this question: 40 marks****BEST FIT PLC**

Tim Jordan was recently appointed as Chief Executive of Best Fit plc, a company that produces fitness equipment for use in health clubs, gymnasiums and the home. When he was hired by the directors, Tim was told that his objective was to make Best Fit one of the best financial performers in the industry. After a brief settling in period Tim has produced a plan that involves:

- a. a reduction in the company's Research and Development (R & D) spending by 50 %;
- b. cutting costs by outsourcing many of the firm's marketing activities, such as the production of publicity materials. Also a reduction in other areas of the marketing budget including a smaller sales-force. Tim estimates overall savings of at least 20 % of marketing spending.

Tim's plan is likely to result in 20 redundancies, mainly in marketing and Research and Development, but he has also included some job losses in administration.

Write a report to the Board, as an independent management consultant, outlining the case for and against Tim's plan and recommending whether or not to adopt it.
(2 marks are available for report format.)

APPENDIX A

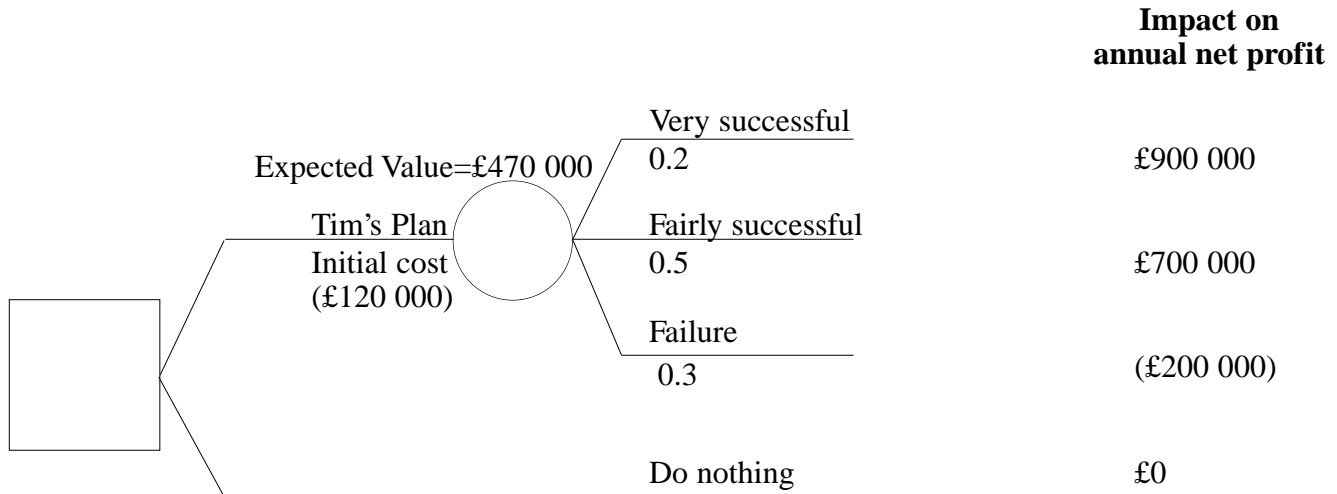
The Market for Fitness Equipment in the UK				
	2000	2001	2002	Forecast 2003
Market growth (%)	15.0%	15.5%	16.0%	16.4%
Market size (£m)	£182.1m	£210.3m	£244.0m	£284.0m
Average industry return on capital (%)	16.5 %	18.0 %	20.5 %	n/a

APPENDIX B

Financial Data for Best Fit plc			
	2000	2001	2002
Turnover (£m)	£15.5m	£15.6m	£15.7m
Profit before interest and tax (£m)	£2.7m	£2.5m	£2.0m
Capital employed (£m)	£13.4m	£14.0m	£15.0m
Return on capital (%)	20.1 %	17.9 %	13.3 %
Sales per employee (£)	£77 500	£74 286	£71 364

APPENDIX C

Expected Gains from Tim Jordan's Plan for the Following Financial Year



Source: Tim Jordan

APPENDIX D

Costs Data for Best Fit plc and the Industry			
Best Fit plc	2000	2001	2002
Total marketing costs (£m)	£1.5m	£1.9m	£2.5m
Total marketing costs (as a percentage of turnover)	9.7 %	12.2 %	15.9 %
R & D costs (£m)	£0.2m	£0.2m	£0.4m
R & D costs (as a percentage of turnover)	1.3 %	1.3 %	2.5 %
Annual increase in total costs (%)	2.1 %	2.3 %	4.6 %
Industry averages	2000	2001	2002
Total marketing costs (as a percentage of turnover)	10.7 %	11.5 %	12.9 %
R & D costs (as a percentage of turnover)	2.2 %	2.3 %	2.4 %
Annual increase in total costs (%)	2.1 %	2.2 %	3.0 %

APPENDIX E

Company Data for Best Fit plc			
	2000	2001	2002
Average number of employees	200	210	220
Average length of service for employees (years)	9.4	9.4	9.6
Number of trade union members	80	115	146
Number of items in company product range	25	21	16
Percentage of revenue generated from products launched in previous three years	40%	35%	26%

SECTION B

Answer **one** question from this Section.

- 2 Tracklin plc is a major construction company that builds and sells houses. After several years of declaring large profits it recently announced a loss of over £3m. Consider the possible implications of this for the business. *(40 marks)*

- 3 Several countries, including Poland and the Czech Republic, have applied to join the European Union (EU) in the near future. Discuss the possible impact of such enlargement of the EU on UK businesses. *(40 marks)*

- 4 Henley plc is a producer of frozen foods such as chips, peas and pies. One of its oldest customers, a major food retailer, has asked Henley to reduce the price at which it supplies some of its products. Evaluate the ways in which the managers of Henley plc might react to this request. *(40 marks)*

- 5 At the moment most aspects of the National Health Service are provided free of charge for patients. At the same time there is considerable criticism of the quality of the service. Should patients be charged for all the healthcare services they receive? *(40 marks)*

END OF QUESTIONS