

General Certificate of Education
January 2006
Advanced Level Examination

BUSINESS STUDIES
Unit 6

BUS6



Thursday 26 January 2006 9.00 am to 10.30 am

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 BUS6.
- 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.
4 of these marks will be awarded for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- This unit assesses your understanding of the relationship between the different aspects of Business Studies.
- 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.

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

P&O

P&O is a large, established company operating cross Channel ferry services for passengers and freight. In addition, it owns and operates a number of ports. In the first half of 2004, passenger ferries lost P&O £25m. In contrast, freight crossings, which transport lorries carrying goods between the UK and the rest of Europe, earned £74m in profit in the same period. In late 2004, P&O announced plans to reduce its passenger ferry workforce by 1200 employees. The move was designed to reduce capacity and cut costs in its cross Channel passenger ferry service. The job cuts are part of a larger strategic review of operations that P&O has been conducting since the start of 2004.

This was not the first time P&O had reduced the size of its operations. It has spent the past decade slimming down. In the past, it has been criticised for being an over-large conglomerate, with a vast range of interests in property, entertainment and holiday resorts, in addition to its ferry services and ports. It has gradually shed its diverse interests and concentrated on its core activities of ferry services and ports.

The City was pleased with the proposed job cuts. P&O's share price climbed 5% following the announcement of the cuts. Some analysts suggested it was only a matter of time before P&O rid itself completely of the passenger ferries and focused on the thriving ports and freight parts of the operation.

However, union leaders criticised the proposed job losses and the lack of consultation, warning P&O bosses that they faced industrial action if they went through with the proposed cuts. Bob Crow, the Rail Maritime and Transport Union (RMT) General Secretary, said: "Our members are devastated by the cuts. We urged the company to consult with us properly, but instead they kept us guessing for weeks. We found out about the job cuts through the media after the decision had been taken. We are happy to talk about ways we can improve efficiency, but we will not tolerate any compulsory redundancies." Another union leader claimed that P&O's management was acting "like rabbits facing headlights" in response to the passenger ferries' losses. "They should seek imaginative and bold strategies for the future, rather than opting to cut costs in this knee jerk way," he said.

A number of factors have made it increasingly difficult for P&O to run its passenger ferries profitably. In recent years, it has experienced a decline in day trips, where passengers bought cheaper beer, wines, tobacco products and gifts on board or during a short stay in France. This decline has occurred for a number of reasons:

- the opening of the Channel Tunnel in 1994;
- the abolition of tax free sales of alcohol and tobacco products on board ferries in 1999;
- the French Government's decision to raise tax on cigarettes by 50%;
- increasing sales of cheap beer and wine in UK supermarkets.

At the same time, the growth of low cost airlines opened up more exotic destinations for UK travellers.

In addition, P&O claims it does not receive the same kind of help as some of its competitors. Two of its main rivals, Sea France and Brittany Ferries, are basically owned by the French Government and, consequently, are under little pressure to deliver profits for shareholders. Also, Eurotunnel, which operates services through the Channel Tunnel, continues to run at a loss with little chance of generating a return for investors. So it is no surprise that P&O has been under intense pressure to slash the prices of its crossings in order to stay profitable. “We are not asking for subsidies from the UK Government, but we do have a pretty uneven playing field,” said Mr Woods, P&O’s Chief Executive.

Bill Moses, a former boss of Hoverspeed, one of P&O’s competitors, argues that the ferry companies have been reluctant to reduce their capacity as the overall market has shrunk and changed in nature. Total ferry passenger numbers from the UK to France are set to halve between 2000 and 2010. “The industry needs to match capacity to demand – something it’s never been good at,” he said. “In the past, in a growing market, it’s not been an issue. In truth, P&O is a fat cat and needs to tailor its service more to customer needs and customer volumes,” he added.

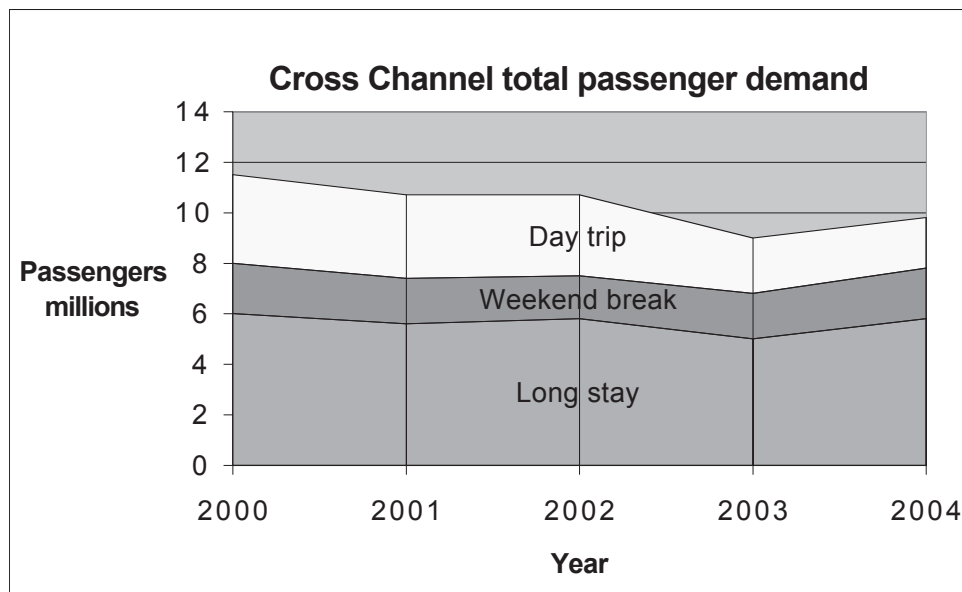
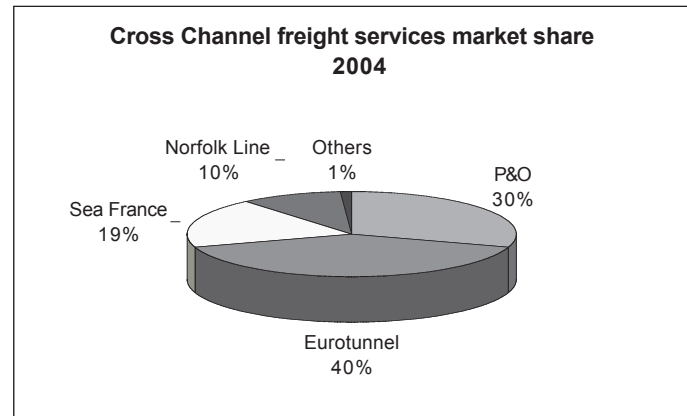
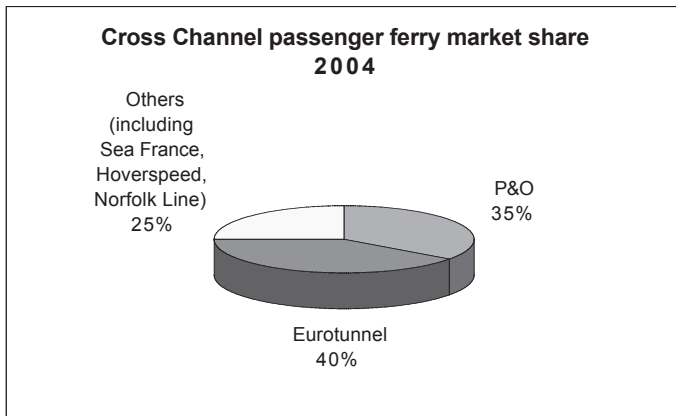
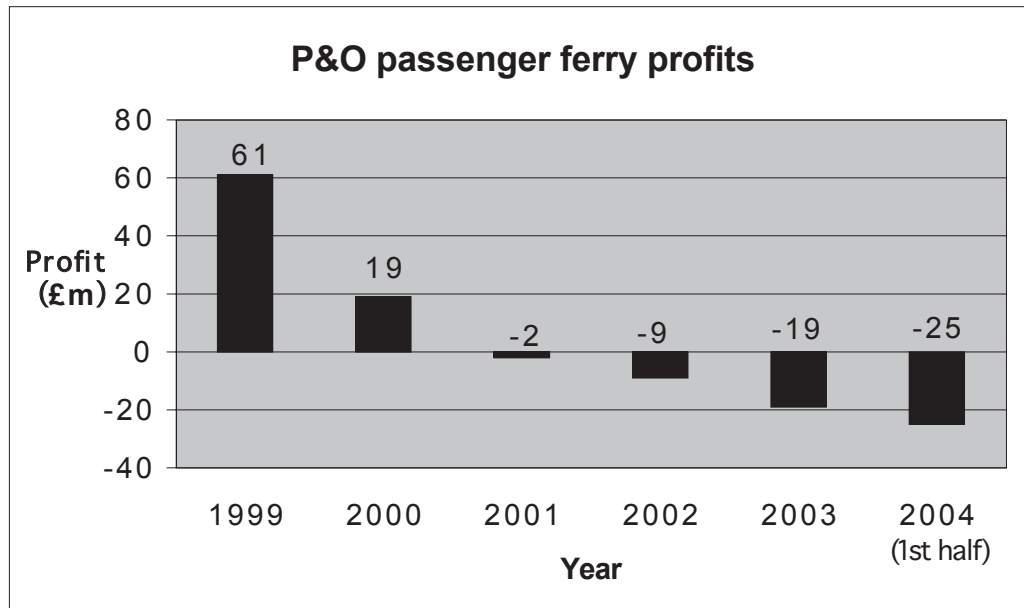
It isn’t all gloom at P&O. Ports and freight services have been consistently profitable. The company expects freight services to contribute 51% of total revenue for 2004, and the freight market as a whole to expand by 6% a year. This growth in freight is partly due to the fact that the volume of freight traffic increases as the economy grows stronger and is also likely to be boosted by the expansion of the European Union. More than half of total imports into Eastern European countries are from established European Union countries, so freight traffic between established EU countries and the new entrants could expand considerably. P&O is attempting to attract freight business from Latvia, Hungary and the Czech Republic by cutting prices for its freight crossings to the UK and by reducing the time it takes lorries to board the ferries. Add to this the potential increase in cross Channel passenger numbers to and from Eastern European destinations, and P&O could benefit significantly.

Despite the harsh trading conditions, and contrary to what many analysts predict, P&O Chief Executive, Mr Woods, was certain that the company can remain profitable in the passenger ferries market. He was convinced that there is a market for UK families who want to take their own car on holiday with them to continental Europe: “Long stay and weekend break passenger numbers haven’t declined at all,” he said. He argues that P&O has a future in this market if it transforms Channel crossings into mini cruises, with better food and quality shopping on board. A move up-market from the cheap day trip image is necessary and achievable, he believes.

Sources: Adapted from, Susie Measure, *The Independent*, 29 September 2004 and *BBC News Online*, 12 August 2004 and 26, 27, 28 and 29 September 2004

Turn over for Appendices and questions

APPENDIX A: Passenger Ferry and Freight Services Data



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- 1 To what extent is the success of P&O's plan to reduce the size of its workforce likely to be influenced by different stakeholders? *(14 marks)*

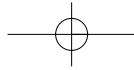
 - 2 During the first half of 2004, P&O carried out a full strategic review of its operations in order to assess its likely direction. Assess the value of corporate planning in helping P&O to formulate its strategy for the future. *(16 marks)*

 - 3 Discuss the extent to which P&O might benefit from the potential opportunities created by the enlargement of the European Union. *(16 marks)*

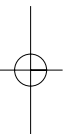
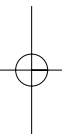
 - 4 To what extent is the declining profitability experienced by P&O in its passenger ferry business the result of external factors beyond its control? *(16 marks)*

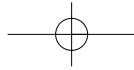
 - 5 Do you think that P&O should move out of passenger ferry operations completely? Use the text and **Appendix A** and any other information to help justify your answer. *(18 marks)*

END OF QUESTIONS

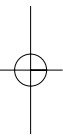
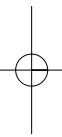


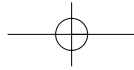
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