



GCE AS/A level

1082/01

BUSINESS STUDIES – BS2

A.M. TUESDAY, 4 June 2013

1³/₄ hours

1082
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book;
- a ruler.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Answer **all** questions.

Write your answers in the separate answer book provided.

Page 5 should be torn out and placed in your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing (question 3(*b*)).

Answer all the questions.

1. NEW PRODUCT DEVELOPMENT AT 'FIVE FARMS' LTD.

Jenny Harris has managed a farm shop, called Five Farms Ltd, on the Welsh Borders for the last three years. The shop is owned by five local farmers, all of whom supply produce to the shop. Business is slow and she has to contemplate laying off one of the part time employees. The shop stocks a wide variety of top quality meat and game, vegetables and dairy products, as well as cider, jams and honey.

A local businessman had recently asked Jenny to make up ten gift hampers as a reward for his sales force and the feedback she got was very complimentary: 'As a sales manager I am always looking for incentives and these really went down well with my team'. She was also surprised at how much he was prepared to pay. Having carried out some further market research she discovered that the market for hampers was worth £75 million in the UK in 2011. She firmly believed that this could be a market that the business could get into and she put together some figures to present to the owners at their next monthly meeting.

Her proposal was to put together a top quality hamper. Its **USP** would be that it is made up entirely of products sourced from UK farms and targeted at the high end of the domestic market, where hampers were currently selling at £120 to £140. Some of the products she had in mind, such as the seafood, the baskets and the wine, would have to be purchased from other suppliers, but the majority of the contents would be the very best quality products sourced from their own farms.

She would need three key items:

- A well designed website.
- Extensive advertising for the first six months.
- Extra equipment at the rear of the shop for putting together the hampers.



She estimated that this would amount to £10000 in fixed costs in the first year. The variable costs, including the basket, packaging, food and drink and delivery costs would come to £90. She felt that they would sell at a premium price of £140 in order to reflect the high quality and prestigious nature of their product. At this price, she predicted that she could sell 600 in the first year.

Jenny put her proposal to the owners and four of the five were quite enthusiastic. Tom Hibbard, the youngest of the five, who had recently graduated from agricultural college, was not so convinced. 'Who on earth will pay £140 for a hamper in these hard times? Your pricing policy is wrong and I suspect you would not even sell enough to break even. As I recall from my time in college, you should adopt what is known as a **penetration pricing policy** and not the policy you have in mind'. Jenny strongly disagreed and put forward the findings of the market research she had undertaken.

- (a) (i) Construct and label a break-even chart on the graph paper provided on page 5 and write the number of hampers that would need to be sold to break-even in the box provided. [4]
- (ii) Draw the margin of safety on the chart if all the hampers were sold in the first year. [1]
- (iii) The margin of safety consists of how many hampers? Write your answer in the box provided. [1]

(Tear out page 5 and place it in your answer book)

- (b) Explain the advantages of break-even analysis to a business such as Five Farms Ltd. [6]
- (c) (i) What is the meaning of the term '*penetration pricing policy*'? [3]
- (ii) To what extent do you agree with Tom Hibbard's view that Jenny's pricing policy is wrong? [6]
- (d) What is a *USP* and how might it benefit Five Farms Ltd. with the selling of its hampers? [3]
- (e) Discuss the issues, other than pricing, that the five owners should consider when deciding upon Jenny's new proposals. [8]

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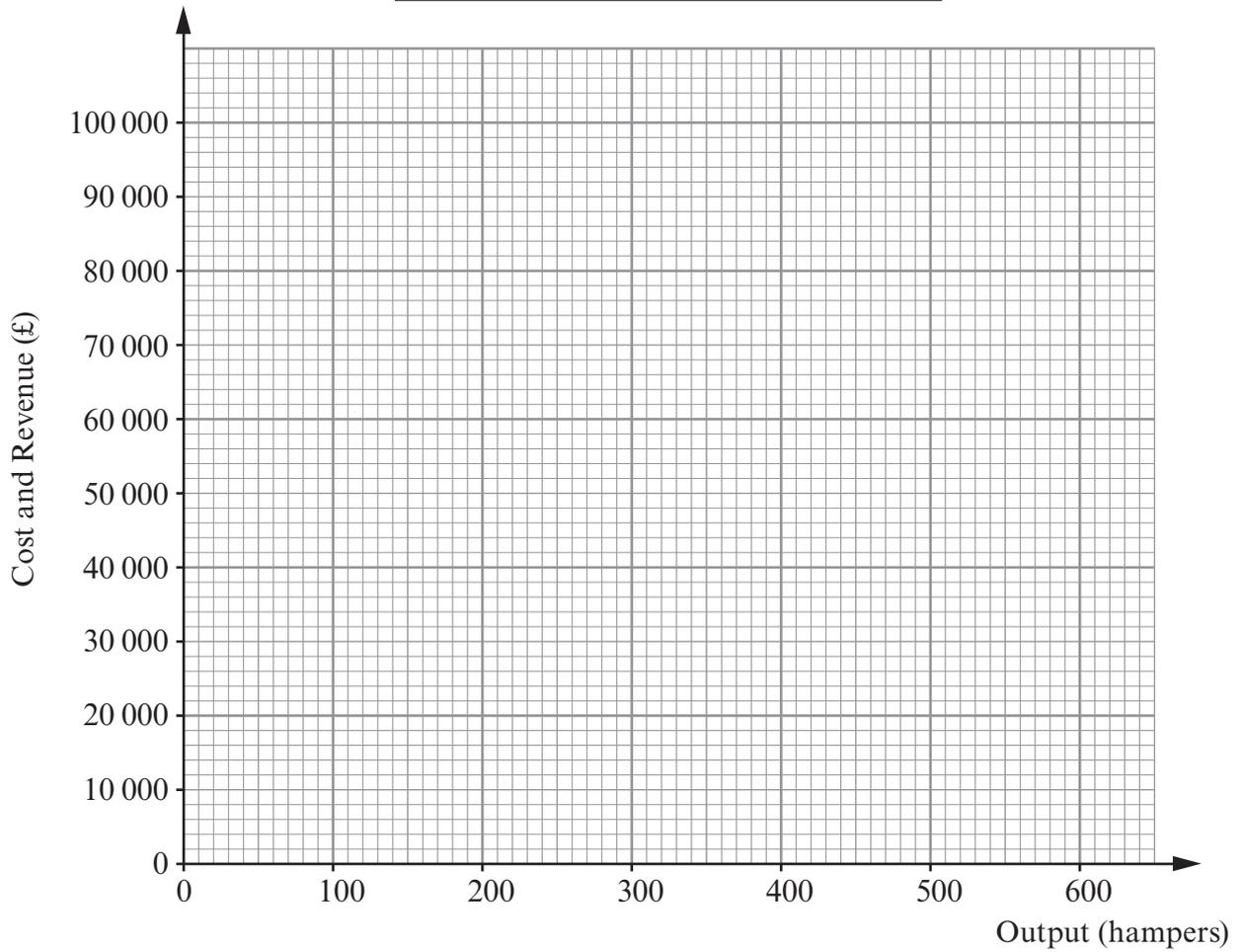
Centre Number

Candidate's Name (in full)

Candidate's Examination Number

Five Farms Ltd's break-even chart for hampers

Break-Even Output =



Margin of Safety =

TEAR OUT AND PLACE THIS PAGE IN YOUR ANSWER BOOK

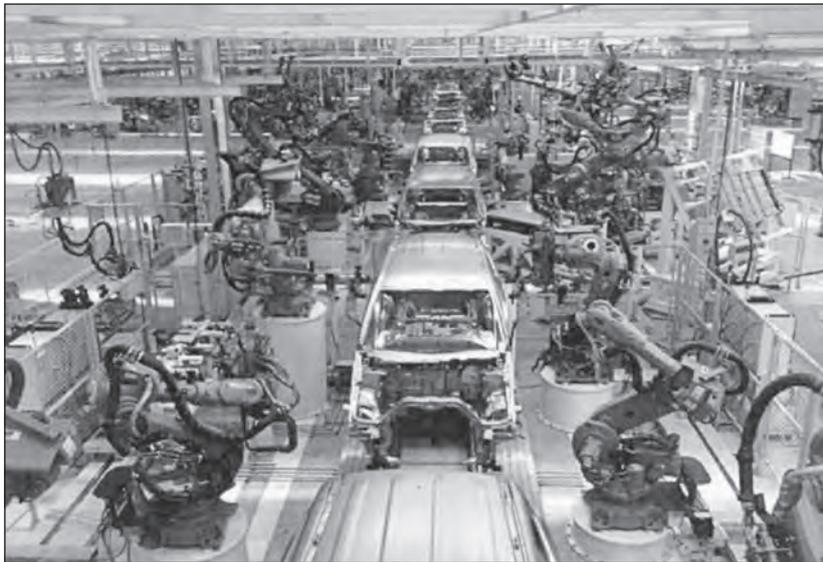
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2. NISSAN 'INVITATION' COMPACT CAR TO CREATE 2,000 JOBS

Jobs for more than 2,000 people are expected to be created by Nissan at its Sunderland plant and among its suppliers by a new small compact car project costing £125m. Production of the car, based on the Invitation concept car, is due to start in 2013 at an initial rate of 100,000 a year. The Nissan expansion will create 400 jobs at the factory and 1,600 more in the supply chain. Those firms in the supply chain will need to comply with Nissan's **Just in Time (JIT)** system, a central element of the company's **lean production** philosophy. The fact that only 400 of the new jobs will be created in order to produce 100,000 cars at the factory suggests that even greater use will be made of **robotic technology** in the future at Nissan.

Adapted from: www.bbc.co.uk



- (a) (i) What is *lean production*? [2]
 (ii) How might *lean production* benefit firms such as Nissan? [4]
- (b) Explain the advantages of adopting a '*Just in Time*' (*JIT*) system. [6]
- (c) Evaluate the view that, for a car manufacturing plant such as Nissan's, using *robotic technology* is always better than employing people to do the work. [8]

3. WORKING FOR THE UK'S BIGGEST EMPLOYER

Not all Tesco employees work in a retail outlet and Vicky, who works in 'Corporate Purchasing' is one such person. Here is what she has to say about her job:

At Tesco we buy a lot more than the goods and services you see on sale in our retail outlets. If we need to buy goods and services which we don't re-sell to customers, such as gas, tills and lorries, Corporate Purchasing is where it happens. For a business our size - that's quite some shopping list.

Even this part of our business is focused purely on customers. That's because we use a system to track down every penny we've saved, allowing us to re-invest this money back into product quality and price cuts. Or to put it another way, our role is to help Tesco get cheaper.

I decided to join Tesco, instead of another big company, because I was very impressed with what their national graduate scheme offered. I knew they were a large company, with international operations, which meant I would be able to access many opportunities and hopefully thrive in my career. What struck me as soon as I joined was how customer-focused everyone around me was. Also, everyone was incredibly helpful and welcoming. The department was quite relaxed and you didn't necessarily have to wear a suit. I find this all very reassuring.

My role varies a lot, depending on the time of year. As the organisation is constantly changing so are my duties – and it's this variety within the job that I really enjoy. Relationships with suppliers and managing performance are key aspects of my role, but there are many other factors and issues I have to prioritise and resolve during my working day. Here, I draw on negotiation skills, communication, data analysis and teamwork.

My days are busy because, in just 3 years, I've demonstrated the ability to manage a lot of responsibility. Once you show Tesco you can do it, they'll give you the opportunity.

Adapted from: tesco-careers.com

Not only does Vicky have a satisfying job but the financial rewards that she and her fellow workers receive are impressive.

A selection of the financial rewards offered by Tesco to their employees includes:

- Competitive salaries.
- Free share offer after one year's service.
- A pension scheme with equal contributions from the company.
- Staff discount card.
- Christmas gift vouchers.
- Private health care for management above a certain level.
- Gym membership.
- Holiday discounts.
- Contract-free phones.

- (a) Analyse the importance of an effective purchasing department to a business such as Tesco. [6]
- (b) With reference to the passage and motivational theorists, discuss the view that, in a business such as Tesco, money will always be the prime motivator for employees. [12]