

Surname
Other Names

Centre Number
64395

Candidate Number
2

GCE AS – **NEW AS**



B510U20-1



S16-B510U20-1



BUSINESS – Component 2
Business Functions

P.M. TUESDAY, 24 May 2016

2 hours

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
Section A	1.	8
	2.	9
	3.	12
	4.	26
Section B	5 or 6 or 7	25
Total		80

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ADDITIONAL MATERIALS

In addition to this paper you will require a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** questions in Section A.

Answer **one** question from Section B.

Write your answers in the spaces provided in this booklet.

If you run out of space, use the continuation pages at the back of the booklet, taking care to number the question(s) correctly.

You are advised to spend no more than 80 minutes on Section A.

INFORMATION FOR CANDIDATES

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

You are reminded of the necessity for good English and orderly presentation in your answers.

SECTION A

Answer all questions from this section.

1. Flexible Working Success

British Telecom (BT) has 72000 employees in the UK, and most of them work flexibly.

A spokesman said, 'Flexible working lets our people find solutions so that they can work in a way that fits in for them and the business. It's not just **working mothers**, dads and partners also have a role to play, and want more time to spend with their **children**. At BT they have the opportunity to request flexible working and benefit from such arrangements. Our people choose to work flexibly for a number of other reasons too, such as **interests outside of BT**, caring responsibilities or to achieve a better **work life balance**.'

Source: www.flexibleworks.co.uk

(a) Identify **two** examples of flexible working. [2]

① Part time working ✓

② Job sharing ✓

(b) Explain the advantages of flexible working to both British Telecom and its employees. [6]

flexible working is highly beneficial to BT employees as it provides a better suited work-life balance to individuals. This provides accommodation for a varied workforce including parents who need time with their children. This improves their motivation and happiness at work and reduces stress. They will have better-employer relations and feel loyal to the firm. It also helps BT as a business as a motivated labour force means higher productivity, better customer service in a customer based industry and decreased staff turnover and absenteeism which is good for such a large firm. flexible working also creates a multiskilled workforce which heightens flexibility in extreme situations.

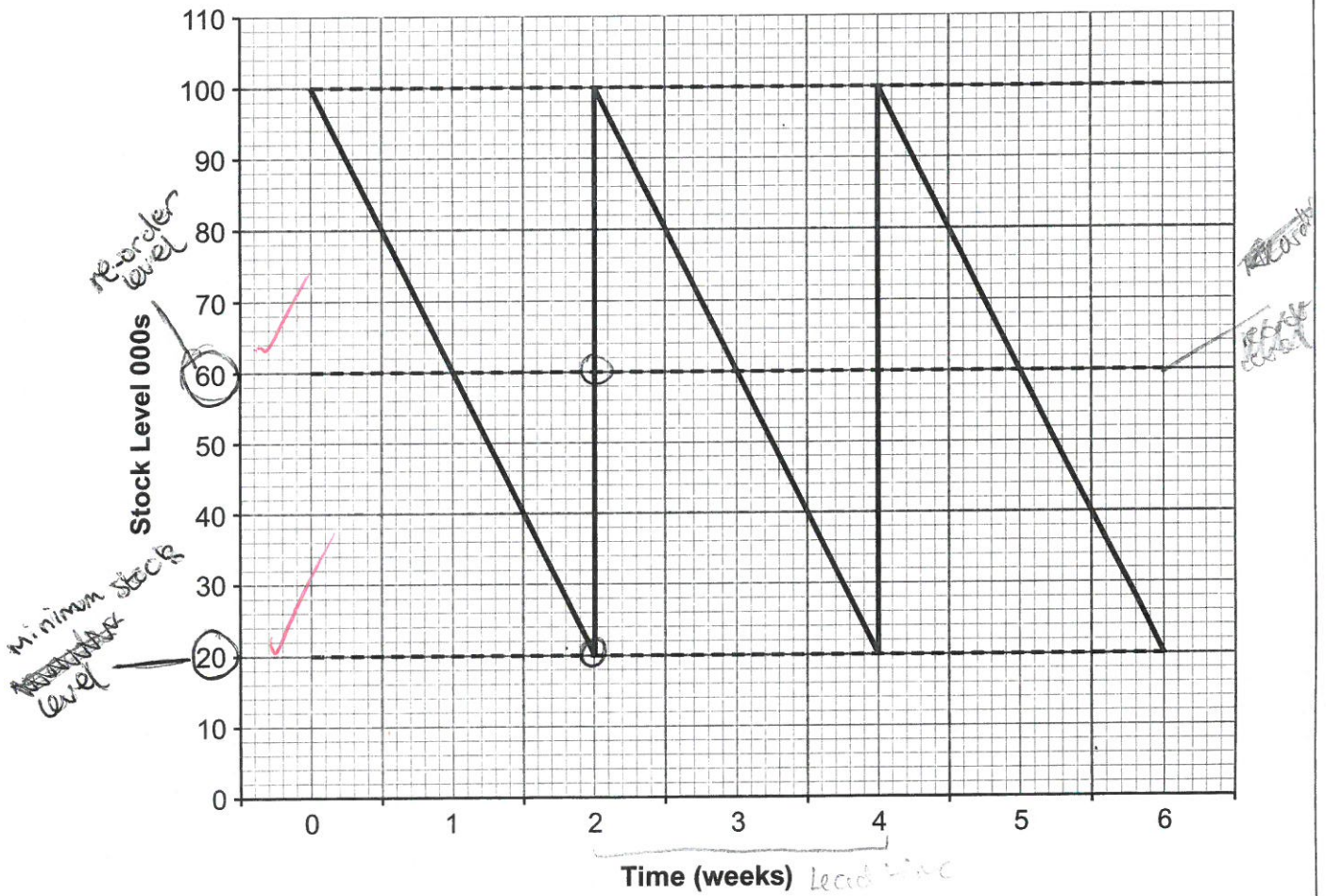
2. Rainy Days Ltd

Rainy Days Ltd manufactures umbrellas which it sells over the internet, as well as to various retailers. It specialises in top quality umbrellas for weddings and sports events such as horse racing.

(a) Rainy Days Ltd keeps a stock of handles used in the manufacture of umbrellas. Study the stock control diagram.

(i) Label the **re-order level** and **minimum stock level** on the diagram. [2]

Table 1 Rainy Days Ltd's stock control diagram for umbrella handles



(ii) Calculate the lead time. [1]

1 week ✓

(b) Evaluate the importance to businesses of holding the correct level of stock.

[6]

~~can be back cost~~
~~holding too much stock is bad for a business because~~
~~the life~~ Holding the correct level of stock is essential to businesses as having too much can lead to damages or theft, perishable goods can become obsolete or unfit for consumption and can also take up physical space within a firm or factory! This is a form of great waste to a business! Excess stock can also have an opportunity cost as it is money tied up that could be used elsewhere in the business!

However, having too little stock also is detrimental as businesses must rely on suppliers who may be delayed or unreliable to frequently order stock! Therefore the firm cannot respond to any surges in demand if buffer stock is not held and in a competitive market this loss of sales and customer loyalty has a worse effect than holding too much stock.

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4 ✓

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2 ✓

9

3. Performance at Allen Ltd

Allen Ltd is a medium sized business based in the Midlands which manufactures exhaust pipes for the car industry. The Managing Director, Molly Allen, has been concerned about the performance of the business for some months and has recently been given the following data:

The Human Resources Manager has informed her that 5 employees left in 2015, giving an average total number of employees of 40. The Production Manager reported that total output for 2015 was 216 000 exhaust pipes.

- (a) (i) Calculate productivity for Allen Ltd for 2015. (Show your workings.) [2]

$$\text{Productivity} = \frac{\text{output}}{\text{n}^\circ \text{ of workers}}$$

$$= \frac{216\,000}{40} = 5400 \text{ units per worker}$$

- (ii) Calculate labour turnover for Allen Ltd for 2015. (Show your workings.) [2]

$$\text{turnover} = \frac{\text{leaving staff}}{\text{total staff}} \times 100$$

$$= 12.5\%$$

- (b) Discuss methods by which productivity in the business could be increased. [8]

Productivity could be increased by training staff to operate equipment or produce output at a faster rate.

Introducing new and modern capital and machinery for producing can eliminate monotonous and boring jobs that can demotivate staff and can complete it faster. 3

Improving motivation amongst the workforce is another method of increasing

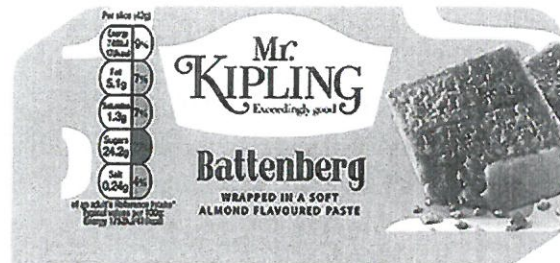
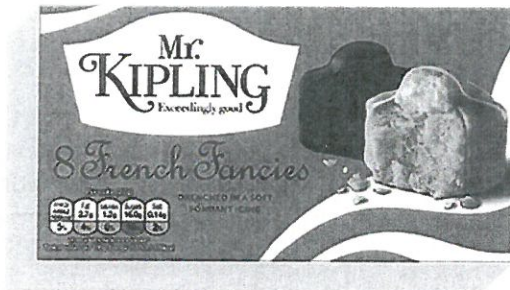
productivity and this can be done by offering financial incentives such as bonuses, pay rise or promotions, or by rearranging workplace layout and allowing flexible working methods such as part time or working from home. Lean production methods such as kaizen or introducing a time based management scheme will also maximise efficiency for a firm such as Allen LTD. 3

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4. An Exceedingly Good Expansion



Britain is clearly a nation of cake-eaters. Not only do we gobble up 240 million Mr Kipling cake slices a year but such is the demand for 'exceedingly good' French Fancies and Battenberg cakes that Premier Foods is expanding.

The country's largest food manufacturer has opened a new production line at its factory in Carlton, South Yorkshire, which will more than double the capacity of Mr Kipling, its top-selling brand. The new production line cost £20 million and was partly financed by Premier Foods selling its Hovis brand.

Gavin Darby, chief executive of Premier Foods, said that when the new line was working at full speed it would be able to produce an additional 300 million cakes a year. 'We have been at maximum capacity for a while now. The new production line is a very high-tech automated line that is 240 metres long and can make 60 000 cake slices an hour. We will have people working on it in three different shifts, operating throughout the day and night.'

Cakes are just one of the products in Premier Foods product portfolio. Other products include custard, jam, flour, cooking sauces and gravy. In the year ended 4th April 2015 they made £294m gross profit and £131m net profit on sales turnover of £767m.

Adapted: *The Times* July 14th 2015

(a) Explain how the Boston Matrix could help Premier Foods manage its product portfolio.

[6]

The Boston Matrix could help premier foods manage its product portfolio by giving a representation of the market share and market growth of each product. Cash cows are products such as Mr Kipling cakes that have a high market share operating in a slow growing market. They do not need much investment and consistently generate profit. Stars also generate the majority of profits with a high market share however operate in a high growth market. The portfolio analysis is very useful for

identifying where businesses such as Premier Foods are going wrong. For example they could see which of their products require advertising investment or improving, or even which products to withdraw to save money. This can be done by sorting products into Problem children - high Market Growth but low MS which tend to absorb rather than generate profit, and dogs that need an extensions strategy due to low MS and slow growth.

(b) Calculate

- (i) gross profit margin and
- (ii) net profit margin

for Premier Foods in the year ended 4th April 2015. (Show your workings.)

$$\begin{aligned} \text{i) gross profit margin} &= \frac{£294\text{m}}{£767\text{m}} \times 100 \\ &= 38.3\% \end{aligned}$$

$$\begin{aligned} \text{ii) Net profit margin} &= \frac{£131\text{m}}{£767\text{m}} \times 100 \\ &= 17.1\% \end{aligned}$$

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(c) Evaluate ways in which net profit margin could be improved at Premier Foods. [8]

Net profit margin as total profit after all costs and overheads can be improved by lowering the costs to Premier Foods. For example, sourcing cheaper raw materials for cakes will reduce the cost of production and widen the margin. Furthermore, reducing costs through wages by laying off staff who are not essential to the highly automated production line newly introduced at Premier Foods will reduce costs.

However, laying off staff can lead to demotivation issues and leave remaining staff fearful for job security. It may also bring high redundancy costs. Cheaper raw materials may also bring quality problems harming the reputation of Premier Foods, contradicting the firm's name. Therefore, increasing the price is another method that can improve net profit margins.

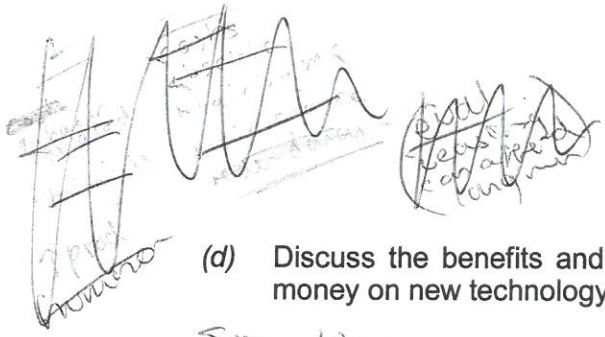
Overall, whilst redundancies and material costs bring downsides, increasing prices will lower demand as the firm's products do have many substitutes + competitors therefore they may be the better option for the business.

A01
A02
A03
A04

~~Lowering costs level 2~~
~~spend less on advertising~~
~~source cheaper raw materials~~
~~redundancy~~

~~Reduce cost margin ↑ P~~

~~increase prices ↓ demand~~
↑ sales → net ↑ profits = demand



8

(d) Discuss the benefits and drawbacks to Premier Foods of spending large amounts of money on new technology. [8]

Spending money on new technology will be good for Premier Foods as it can replace labour with jobs that are highly repetitive and boring and lead to demotivation. New technology also eliminates the chances of human error which is essential to a business that operates in a food market such as Premier Foods. Overall, productivity will be ultimately higher as robotics and mechanised production is more reliable in terms of absenteeism and faster at producing a consistent product such as cakes.

However, new technology is highly expensive and requires maintenance and upkeep. This money has an opportunity cost and could be spent elsewhere such as on advertising to improve Premier Foods profit margins. Technology is also a fast growing market and can quickly become obsolete, wasting money for Premier Foods and furthermore, the training costs for using machines will harm the businesses cashflow.

Overall, whilst new technologies is an expensive investment in the long term productivity and cost of production will be improved. There are also methods such as leasing and selling old assets that can reduce the overall cost of the capital, although with a £767 million sales turnover, Premier Foods can afford the upgraded production methods.

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SECTION B

Answer one question from this section.

5. Good Leadership – A Guarantee of Success?

- (a) Describe the different leadership styles which might be used by a manager of a supermarket. [10]
- (b) Consider the importance of good leadership to the success of a business. [15]

6. The Price is Right?

- (a) Describe the pricing strategies which might be used by a fast-food business such as Subway, KFC or McDonalds. [10]
- (b) 'Charging the correct price is the most important element of the marketing mix.' Discuss this statement. [15]

*psych. cost plus
- leader
- destroyer
- penetration*

8

7. Quality Clothing?

- (a) Identify the methods of improving quality which might be used by a multinational clothing manufacturer. [10]
- (b) Discuss the impact of improving quality on the stakeholders of a business. [15]

8 ✓

14 ✓

+

Too high = ↓ demand

too low = quality question
+ no profit
cannot survive

Product

- quality
- USP
- need/demand

Place

- website
- high street
- e-commerce activity
- dist. channels can afford

Promotion

Above/below

Can afford?

Who is buying

do they have info

eval → product is everything can be adjusted

no price
yes price has price demand

17-1

Answer the question from Section B using the following pages.

⑥ The price is right?

(a) Market orientated or cost based pricing methods can both be used in the fast food market. ✓

For example, Psychological pricing will convince customers of value for money by offering a seemingly low price such as £9.99 rather than £10. ✓

Cost plus pricing ¹ may also be used by ^{global} chains such as McDonalds as it provides a clear objective such as 20% profit for example where 20% added value ² is used as a markup to sell the product. ✓

Another method is loss leader pricing ¹. This is effective in stores with a variety of products such as fast-food chains as by reducing the price on one product to make a loss, firms count on footfall and placement for customers to purchase others for example a cheap burger deal at KFC will draw in customers however once in store they may also buy a drink and a dessert. ²

Destroyer pricing is the method of underpricing competitors entirely with slashed prices to gain sales and market share however whilst this is illegal in the UK, an oligopoly market ² such as the fast food market will have an element of price based competition due to undifferentiated products and a price war may occur. ✓

Penetration pricing may also be used by firms who are new entering the market for example when Subway entered the UK market they will have used penetration pricing where prices are the lowest market price to attract sales, then raised once market share is established. 2

(b) The marketing mix made up of price, product, place and promotion is the core fundamental of business marketing and can make or break a firm. I will be discussing whether price can be considered the most important. 1

Price is a pivotal part of the business process and can lead to the downfall of a product. Having a price too high can seriously reduce the demand for a product especially in mass competitive markets! Too low a price begs the question of the quality of the good and although this depends on the type of good/service in most cases customers will be put off by a very low priced product. Furthermore, too low a price means the firm will not cover its costs leading to bankruptcy and closure if they cannot survive in the market. Promoting a product at the wrong price will be ineffective and detract sales for this reason.

~~is also essential to the place the product is being sold
for example selling an expensive~~

On the other hand, it can be argued that product is the most important part of the marketing mix as without a good/service that is needed or demanded by the market, no other parts of the mix will be applicable. Firms would need to think about the quality and a USP of the product before deciding the price.

Promotion could be considered the most important as it is necessary for sales to occur. Deciding who is buying their product and where that needs to be advertised is primary, before the ~~the~~ pricing is necessary. Although, whilst above the line promotion is possible for firms, below-the-line and targeted advertising cannot be organised without gathering customer details for which requires an appropriately priced product.

The last element is place. This is important as it can decide who will see the product or service for example whether the product is sold on a busy commercial high street, on another retail store or whether it has an online presence. Different distribution channels need to be considered based on cost, convenience, control and sales potential in order to establish a solid outlet for selling before price is managed otherwise customers will be lost and profit decreased.

In conclusion, I would consider product to be the most important element of the marketing mix 4
as all other elements can be easily adjusted once the firm begins to grow and make profit however without a justified demand and sellable commodity, the business will not even survive. Having said this, the importance of each element depends on the type and size of the business, the size of market they operate in, the PED and YED of the product as well 4
as competition and tastes within the market. Whilst price may be an important issue in the short term, the quality and success of the product is a long term concern of businesses. 4

