

Script Marks Report

Component A510U20-1 - BUSINESS COMPONENT
Series 2
Candidate Name 19E
Candidate Number
Centre Number 64395
Total Mark 42

A LEVEL COMP 2 Student achieved an overall grade C

Item	Mark	Annotated Comments
1a	0	
1b	0	
1c	-	
2a	1	
2b	3	
2c	8	
3a	3	
3b	4	
4a	2	
4b	2	
4c	3	
4d	5	
5a	3	
5b	6	
6	2	
Total Mark	42	

Surname	Centre Number	Candidate Number
Other Names	64395	



GCE A LEVEL

A510U20-1



**BUSINESS – A level component 2
Business Analysis and Strategy**

MONDAY, 3 JUNE 2019 – AFTERNOON

2 hours 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	10	
2.	16	
3.	9	
4.	15	
5.	18	
6.	12	
Total	80	

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen. Do not use pencil or gel pen. Do not use correction fluid.

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

Answer **all** questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the additional page(s) at the back of the booklet, taking care to number the question(s) correctly.

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.



JUN19A510U20101

Answer all the questions in the spaces provided.

1. Gifts Galore Ltd is a manufacturer of gift cards for different occasions. Until recently, its main customer base consisted of a number of small independent retail shops. However, following a difficult trading period, Gifts Galore Ltd have tried to seek additional custom from larger retailers, such as WH Smith, but these customers tend to insist on trade credit from their suppliers.

The Managing Director of the business, Ruth Meredith, is analysing the business's financial accounts to consider the current position. Below is an extract from the balance sheet:

Balance sheet extract for Gifts Galore Ltd: 1st May 2019

	£
Fixed assets (non-current assets)	
Premises	500 000
Vehicles	48 000
Machinery	60 000
Current assets	
Stock	322 000
Trade receivables (debtors)	65 000
Cash	0
Current liabilities	
Trade payables (creditors)	287 000
Overdraft	64 500

- (a) Outline the meaning of the term *fixed assets (non-current assets)*.

[2]

1a: 0

Fixed assets are items owned by the business, which are usually large and expensive, and aren't going to be immediately sold on (as goods/products would be). E.g. heavy machinery, transport lorries.



Examiner only b : 0

(b) Using the information provided, calculate the working capital for Gifts Galore Ltd. [2]

322,000 + 65,000 = 387,000

(c) With reference to the balance sheet extract, assess the level of working capital for Gifts Galore Ltd. [6]

1c : -

A510U20-1

10



2. Jaguar Land Rover is a manufacturer of motor vehicles. As part of its **corporate strategy**, its main focus is on 'the innovation, design and creativity that our customers love'.

Jaguar Land Rover has identified several trends in the market that are influencing the car industry, including:

1. Stricter regulations around the fuel efficiency and the safety features of cars.
2. New regulations, which limit the level of fuel emissions from cars in cities.
3. Consumers are demanding better technology within their cars, such as broadband connections.
4. Consumers are changing their use of cars, such as the increased trend of car sharing.
5. Consumers are looking for different ways to purchase their cars, and the increased use of the internet to help this.

Source: http://annualreport2016.jaguarlandrover.com/assets/jaguar-land-rover-annual-report-2016_strategic-report.pdf

- (a) Define what is meant by *corporate strategy*. [2]

2a : 1



A corporate strategy is set out by the directors of a business, at the highest levels, to outline the overarching targets that business hopes to achieve. Usually drawn up for shareholders - to give owners a clearer image of the firm, also to keep lower staff engaged.

- (b) Explain how Jaguar Land Rover could respond to any **two** of the changing market trends identified above, in order to achieve its corporate strategy. [4]

2b : 3

Responding to stricter regulations around the fuel efficiency of cars and safety features, Jaguar could invest even more into Research & Development to create products which are more economical and have more safety features (e.g. electric cars and automatic braking technologies).

To respond to customers looking to purchase cars in new ways, Jaguar could use m-commerce as a way of allowing consumers to customise the cars they might want and place an order from a smartphone app.

A02 2

A03 1



Like many other car manufacturers, Jaguar Land Rover assembles its cars in its own factories but it outsources many of its operations to other businesses such as:

- DHL manage the logistics of its just-in-time system.
- Pilkington's Glass carry out research into new glass technology, and provide hi-tech windscreens.
- External companies carry out IT helpdesk services.

(c) To what extent do you think that outsourcing some of its operations is beneficial for Jaguar Land Rover? [10]

Outsourcing is a key part of many businesses and allows firms to focus on the production of their own products, whilst allowing special-ists to aid in the production and function of another business.

The first benefit of outsourcing for Jaguar Land Rover (JLR) is ~~that~~ that they're able to choose the highest quality products from firms with lots of experience in an industry. JLR produces high quality products, which they want to appear desirable, and by having new glass technology and hi-tech ~~windscreen~~ windscreens they can more closely achieve this.

A second benefit of outsourcing to JLR is ~~the~~ that money can be saved in expenses through lower levels of Research and Development. This is because in order to invest in their own hi-tech glass and deal with ^{customers} ~~consumers~~ in the best possible way, JLR would need to spend lots of money on Research & Development, ^(R&D) as well as the production of glass or IT equip-ment for a helpdesk. Paying another firm to do



This ~~is~~ for JHR would be more efficient and rem-
-oves high R&D costs.

However, outsourcing can cause problems for
firms also. JHR say they outsource their

16

3. Playtime Cuddles Ltd is a manufacturer of cuddly toys for children and produces a range of products including teddy bears and accessories for decorating the bears. The Managing Director, Khadijah, is considering the options for growth including developing new ranges of toys. Alternatively, Playtime Cuddles Ltd could look to expand into a new market, possibly on an international level.

Recently, one of its largest customers approached Playtime Cuddles Ltd, a large chain of nurseries called Fairies, who buy the teddy bears in bulk. Fairies have asked for a teddy bear that is slightly adapted from the original design by adding its own nursery logo.

The original teddy bears were sold at £12 per unit, with a manufacturing cost per unit of £6.50. Khadijah estimated that the product alterations would cost an extra 50p per unit to manufacture. Fairies had offered to pay £13.50 each for the modified bears. Fairies are requesting 600 units of the modified bear.

- (a) Calculate the total contribution that would be made if Playtime Cuddles Ltd decided to accept the order for the modified teddy bears. (Show your workings.) [3]

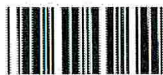
3a : 3

Contribution = Selling Price - Variable cost

$$6.50 + 0.50 = \underline{\pounds 7} \quad 13.50 - 7 = \underline{\pounds 6.50} \text{ contribution per unit}$$

$$6.50 \times 600 = \underline{\pounds 3900}$$

Total contribution = £ 3900



- (b) Discuss and then advise Khadijah whether or not to accept the additional order for the modified teddy bears. [6]

The offer ~~off~~ to Playtime Cuddles Ltd would generate a fairly large order of products with a reasonably sized contribution; however we don't know the fixed costs of Khadijah's business. The customer is offering to pay a fair amount more for the modified bears, and contribution for the modified bears is £600 more than it would be for original products. This order could ~~cost~~ cost more in fixed cost though if using a flow production method - as opposed to jobs or batch, however the costs would likely not be significantly more due to only minor changes. Modification to an existing product is a much less risky method of expansion than entering a new market, as is outlined in the Ansoff matrix. If Playtime Cuddles are serious about international expansion and are willing to take the risks, they should grow as much in their national market as possible to attempt to mitigate the high cost of failure.

AO2 2

AO3 1

AO4 1

I would advise Khadijah to accept the offer, as it provides higher than usual contribution and incurs minimal risks.

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07

9



4. Stylish Comfort sells reclining and massaging armchairs and are currently operating over 25 stores across major cities of the UK. The business employs almost 200 employees. The management team are expecting the market to continue to grow in the future, but they are worried about new competition entering the market.

Their sales figures and three-point moving average figures are shown below.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales revenue (£000's)	372	370	350	420	460	(ii)	531	520	542	570
Three-point moving average (£000's)		364	(i)	410	467	504	524	531	544	

- (a) Calculate the percentage change in sales revenue between 2017 and 2018. [2]

4a : 2

$$542 \div 10 = 54.2 \div 2 = 27.1 \text{ (5\%)} = 38$$

$$542 + 27.1 = 569.1$$

$$542 \div 1000 = 0.542 \text{ (0.1\%)} \quad 5.2\% \text{ increase}$$

- (b) Complete the table by calculating the missing figures for: [2]

4b : 2

- (i) Three-point moving average for 2011

$$370 + 350 + 420 = 1140 \div 3 = 380$$

$$2011 = \text{£}380,000$$

- (ii) Sales revenue for 2014

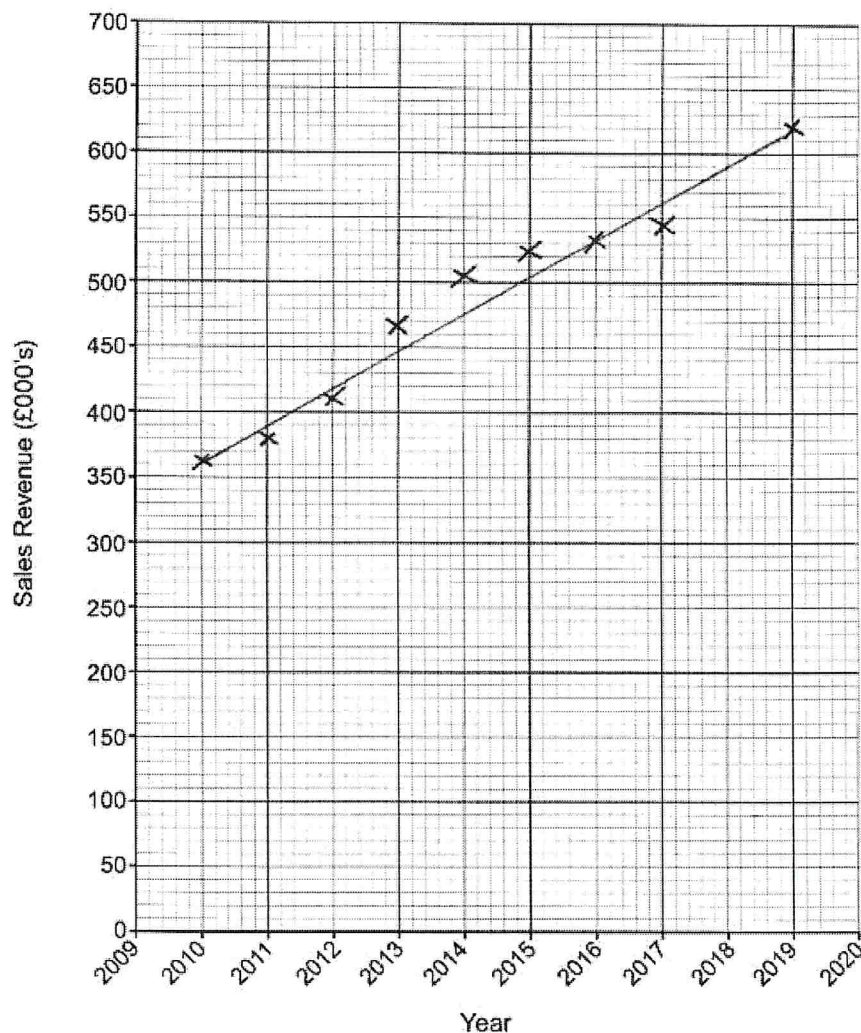
$$460 + 531 = 991 \quad 173.7 \times 3 = 521$$

$$991 \div 3 = 330.3$$

$$504 - 330.3 = 173.7 \quad \text{REV } 2014 = \text{£}521,000$$



- (c) Plot the three point moving averages on the graph provided and use a line of best fit to predict the sales revenue for 2019. [3]



Prediction for the 2019 sales revenue £620,000

- (d) To what extent are quantitative sales forecasting methods more useful to Stylish Comfort than qualitative forecasting techniques? [8]

Quantitative methods of forecasting take into account numerical data sets and averages based on previous records. By contrast qualitative forecasting takes into account opinions and



09

favours this over looking at sets of data. Both techniques are widely used.

Quantitative methods are fixed sets of data and are fact. They are highly useful for the regular calculation of forecasts. This is shown in Stylish Comforts forecast data - where there is ~~now~~ only a disparity between the moving average and actual sales greater than £20,000 in 2011 (£30,000 difference); this shows a relatively accurate forecasting technique. These quantitative methods are clearly highly useful therefore as forecasting techniques.

However, the fact there was a disparity in 2011 highlights the main issue with quantitative forecasting; it can't take into account external market conditions. In 2011 people were still recovering from economic crisis and the demand for massaging arm chairs was likely significantly lessened with it being a luxury good.

Qualitative data can take this into account, however quantitative data won't. This is why qualitative forecasting should also be used in conjunction with quantitative. For the majority of forecasts Stylish Comfort carries out, quantitative data will be a significantly more important technique, as long as they monitor external factors

AO1 1

AO2 1

AO3 2

AO4 1

15



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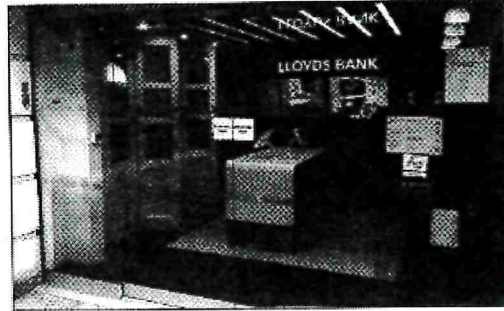


5. Lloyds Bank PLC to reduce hundreds of branches in size

Lloyds Bank PLC has announced plans to reduce hundreds of its branches in size, in some cases completely removing the traditional service desks.

It has already announced plans to close 400 of its branches around the UK, with 9 000 job losses.

The new "micro branches" will be staffed by just two people, who will help customers to use machines, including pay-in devices.



Lloyds said the reason was a significant change in customer behaviour, which has seen more transactions move online. The micro format will use as little as 1 000 square feet of space, as they felt a lot of empty unused space was intimidating for customers.

There will be no counters in the new micro branches. Instead, the staff will be mobile and will carry tablet computers to help customers. There will be video links for customers to talk to mortgage advisers, but for complex transactions, they will have to visit a bigger branch.

As part of the changes, Lloyds will also open up to 20 much larger branches containing specialist services and staff.

(Adapted from) Source: www.bbc.co.uk/news 3rd April 2017

- (a) Explain the role that information technology has played in Lloyds Bank PLC's decision to launch micro branches. [6]

5a : 3

Information technology (IT) has played a substantial part in Lloyds PLC's choice to move to smaller branches in most customers' local areas. By using e- and m-commerce for online banking, the ~~stores~~ banks' customers don't have to regularly go ~~into~~ into branches to carry out banking needs. This is why although there are increasing customer numbers for banks (with a growing population), smaller spaces can be used with less staff due to a rapid decrease in in-store activities - which can instead be carried out online. Lloyd's move will be a slightly different offering to online only banks - such as First Direct.



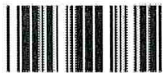
who have been highly successful, due to the larger so multi-service stores. Online competitors, who can be successful and compete with Lloyds, face far lower fixed costs without having stores on 100's of high streets. Therefore, IT has played a major role in the actions taken to acquire micro-branches and move online.

(b) Evaluate the impact of Lloyds Bank PLC's decision to rationalise on the business and its stakeholders. [12]

5b : 6

As a bank, Lloyds PLC has a wide ranging variety of stakeholders. The rationalisation would therefore be impacting a very large range of people, all with different interests in this highly important organisation.

The decision to rationalise would first impact the organisations employees as a stakeholder group. The loss of 9000 jobs ~~is~~ ^{was} a major impact on communities across the country. Staff who have ~~not~~ been made redundant likely face significant challenges in attaining a new job, due to the decline of physical stores in banking industry-wide. ~~The~~ The loss of so many jobs would likely be very demotivating to remaining staff members also. Looking at Maslow's hierarchy of needs, safety is the second most important fulfillment on the 5 stage path to motivation. Job security is a key part of feeling safe in a



job, with the threat of losing their jobs, many staff ~~may~~ will not have their safety needs met, and so won't be able to carry out their jobs to the highest levels, impacting business wide, with ~~another key stake~~ customers being affected by de-motivated staff also.

Another key stakeholder is the customer, who may see some de-motivation of staff, but due to most operations by customers taking place online now, this likely would be minimal. Older demographics, many of whom choose to use in-store services, as opposed to just online, could be significantly affected by the closures of local branches and may likely choose to switch providers to the nearest branch of another bank.

Shareholders as a stakeholder group would ~~have~~ likely enjoy reduced costs, fixed and variable, by the business. This could lead to payouts of higher dividends for stakeholders. Lloyds PLC with some on paying wages, salaries and the high fixed costs of maintaining high street branches.

A01 1

A02 2

A04 1

A03 2

18



6. Taylors Slate Mine has been established in Cumbria since 1885, and has been mining for slate at three separate sites ever since. Taylors Slate Mine is considering two options to develop its business, but can currently only afford one of them.

Option 1 – Buying new mining equipment

The option is to invest in a new piece of mining equipment for each site, which should allow output to increase by up to 20%. The machinery will cost the business £250 000 in total, but six fewer employees would be needed.

Option 2 – Cafe and gift shop

Based on the ever-increasing tourism trade in Cumbria, focussing on hiking and other outdoor activities, Joe Taylor – the Managing Director - is keen to develop a cafe and gift shop at one of the mine sites. He also believes he could sell some of the slate products as gifts to tourists. He estimates that the project would require an investment of £150 000 to develop the site.

The table below shows the annual net cash flow that Taylors could expect from both of the investment options over the next 5 years.

	New machinery net cash flow (£'s)	Cafe and gift shop net cash flow (£'s)
Year 1	30 000	10 000
Year 2	70 000	20 000
Year 3	100 000	40 000
Year 4	100 000	80 000
Year 5	115 000	110 000

Using payback and ARR methods of investment appraisal, and any other information in the data, recommend to Taylors Slate Mine whether it should invest in the new machinery or the cafe and gift shop. [12]

6 : 2

The two investment options on offer to Taylors Slate Mine are very different from one another. One would mean an expansion of the existing product on offer, with the other being effectively a diversification into the tourism market.

The investment in option 1 (new equipment) ^{ve} ~~is~~ requires a substantially larger initial investment than option 2 (£100,000 more). This



would be able to expand Joe Taylor's business by $\frac{1}{5}$, and he would have to weigh up whether there is demand from their customers for this extra produced slate. The reduction in employees would be beneficial to costs business wide though, and in the long-term less salaries or wages would definitely reduce business costs and outweigh the high cost of initial investment.

The second option, in contrast, is an unknown industry to Joe Taylor. Further

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12



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Question number	Additional page, if required. Write the question number(s) in the left-hand margin.	Examin only
2c	<p>IT helpdesk to an 'external companies', by having multiple businesses take care of this out-sourcing, customers may likely find that they have varying customer service experiences, if a customer has a bad helpdesk experience it could be difficult for JLR to track and control - causing serious issues with customer satisfaction. This outsourcing potentially has more negatives than benefits.</p> <p>Furthermore, whilst many businesses could provide high quality outsourcing to JLR, they may try to save money and struggle to control the actions of who they outsource to. Again to this could create reputational damage.</p> <p>To conclude, outsourcing has many benefits for Jaguar Land Rover, they can save on time consuming and expensive R & D, as well as choose the highest quality products to compliment their high quality products. There is potential for reputational damage to the firm (which is important when selling luxury cars), however this could be mitigated by careful consideration of the outsourcer.</p>	



Question number	Additional page, if required. Write the question number(s) in the left-hand margin.
AO1 2	<p>on the whole, outsourcing is beneficial to quite a high extent.</p> <p>AO2 1</p> <p>AO3 2</p> <p>AO4 3</p>

Examiner only

