Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
January 2011

Business Studies BUSS2

Unit 2 Managing a Business

Thursday 20 January 2011 1.30 pm to 3.00 pm

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(c), 1(d), 2(c), and 2(d) should be answered in continuous prose. In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Do not write outside the box

Answer **all** questions in the spaces provided.

1 Read the **case study** below and then answer the questions that follow.

Entering new territory

Shearings Holidays Ltd (*Shearings*) sells holidays and travel services in a niche market. It employs 3000 people and operates a chain of hotels and eight high street travel shops and has developed an excellent reputation for selling holidays to customers aged 55 and over. *Shearings* plans further expansion.

Despite operating in a highly competitive market with larger rivals, including Thomas Cook, *Shearings* sells over 900 000 holidays and hotel breaks each year. To achieve this, the company uses advertising as an important element of its promotional mix.

Shearings' revenue was £182 million in 2008, and its profits were £5 million, lower than forecast due to rising costs. The company had forecast that its costs would continue to rise in 2009 and its budgets show relatively stable figures for revenue and profits. It sets profit targets for its hotel managers. *Shearings*' budget for 2009 included plans to invest £10 million in 45 luxury coaches and £25 million in purchasing more hotels.

The number of hotels owned by the company has risen rapidly to 49, with further growth ahead. *Shearings* has taken key decisions to help its expansion. During 2009, it changed its organisational structure to create two independent divisions, one for its holiday operations and one for its hotel chain. As part of these changes, the company announced 10 redundancies, including administration managers' jobs.

Figure 1: Actual and forecast data on UK population aged 55 and over

Year	Number of people aged 55 and over (millions)	Percentage of population aged 55 and over
2006	16.84	27.95
2011	17.83	28.41
2016	19.29	29.69

Source: based on data from *Social Trends* (2008)

Shearings is moving away from its niche market of older consumers to target the mass market for holiday services. The company initially established an annual advertising budget of £2 million to assist this move. *Shearings* has a diverse range of products, many of which are suitable for a younger market. It has successfully launched its 'Coast and Country Hotels' aimed at a wider age group and plans further new brands for the mass market.

Source: *Social Trends*, No. 38, 2008 edition reproduced under the terms of the Click-Use Licence

Do not write outside the box

1 (a) Explain why *Shearings* uses advertising as an important form of promotion.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(5 marks)

Extra space .....

.....

.....

.....

.....

Question 1 continues on the next page

Do not write outside the box

1 (b) Analyse **two** benefits that *Shearings* might receive from its use of budgets.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(8 marks)

Extra space .....

.....

.....

.....

.....

.....

Do not write outside the box

1 (c) *Shearings* has changed its organisational structure to create two separate divisions. To what extent might this new structure improve the performance of the business?

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(13 marks)

Do not write outside the box

Extra space .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

1 (d) Do you agree with *Shearings*' decision to move into the mass market for holiday services? Justify your decision.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Do not write outside the box

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(14 marks)

Extra space .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

40

Do not write outside the box

2 Read the **case study** below and then answer the questions that follow.

Velocity Ltd

Since 1955, *Velocity Ltd* has produced high-technology sports cars on a large site it owns in Wimbledon, London. The company is renowned for the quality of its designs, the technical and craft skills of its employees and the advanced technology it uses in its cars. *Velocity Ltd's* cars are expensive (the cheapest is £75 000) and are hand-built.

Velocity Ltd's maximum production capacity was 200 cars each year. In 2010, following an agreement with the workforce to work longer hours for a 20% pay increase, this figure rose by 17%. However, the company still experiences problems in meeting demand for its cars.

Figure 2: Velocity Ltd – Key data for 2010

Average period of time allowed by suppliers for payment	11 days
Outstanding debts owed by customers on 31/12/2010	£2 750 000
Cash balance on 31/12/2010	(£1 487 900)
Average annual profits (2006–2010)	£1 800 000
Average monthly production	19 cars
Average labour turnover (2006–2010)	12.1%
Average span of control	14

Velocity Ltd employs 278 people who receive regular training to develop and improve their skills. Many employees have high levels of technical expertise and the company provides advice to other businesses on a range of technical matters. The company has an empowered workforce, a flat organisational structure, relatively few managers and it uses teams throughout its workforce.

Recently, the company has experienced difficulties in managing its cash flow as it has developed a new model of car (*Tempo*) which will be sold from February 2011 onwards. *Velocity Ltd* exceeded its overdraft limit (£1 500 000) four times in late 2010 and incurred high penalty charges. The company's financial director has proposed asking for a 33% increase in the company's overdraft limit.

Velocity Ltd faces a major decision on whether to use more technology in its operations. Some of the company's directors favour greater use of technology in designing new cars and the use of robotics on the production line which will ease operational pressures. The estimated cost of the new technology and associated training costs is £3 million. Other directors argue that this move is particularly unsuitable for *Velocity Ltd*, its staff and its customers. They believe that using new production line technology will result in the company losing its reputation for being a traditional manufacturer of hand-built cars.

Do not write outside the box

2 (a) Calculate *Velocity Ltd's* capacity utilisation for 2010.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(5 marks)

Question 2 continues on the next page

Do not write outside the box

2 (b) Analyse the possible reasons why *Velocity Ltd's* managers have empowered the company's workforce.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(8 marks)

Extra space .....

.....

.....

.....

.....

.....

Do not write outside the box

2 (c) Discuss whether increasing its overdraft limit is the best way for *Velocity Ltd* to improve its cash flow position.

(13 marks)

Do not write outside the box

Extra space .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

2 (d) Some of *Velocity Ltd's* directors support the use of more technology in its operations. Do you agree with them? Justify your view.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Do not write outside the box

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(14 marks)

Extra space .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

40

END OF QUESTIONS

Do not write outside the box

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Do not write outside the box

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Do not write outside the box

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Copyright © 2011 AQA and its licensors. All rights reserved.