General Certificate of Education
Advanced Level Examination
June 2010

Business Studies BUSS3

Unit 3 Strategies for Success

Friday 11 June 2010 1.30 pm to 3.15 pm

For this paper you must have:
- a 12-page answer book
- a calculator.

Time allowed
- 1 hour 45 minutes

Instructions
- Use black ink or black 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 BUSS3.
- Answer **all** questions.
- Do all rough work in your answer 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.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Formulae for Financial Ratios: BUSS3

Financial ratio	Formula
Current ratio	current assets : current liabilities
Acid test ratio	liquid assets : current liabilities Where liquid assets are current assets – inventories (stock).
Return on capital employed % (ROCE)	$\frac{\text{operating profit}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Asset turnover	$\frac{\text{revenue}}{\text{net assets}}$
Inventory (stock) turnover	$\frac{\text{cost of sales}}{\text{average inventories (stock) held}}$
Payables (Creditors) days **(Payables'* collection period)**	$\frac{\text{payables*}}{\text{cost of sales}} \times 365$ * Payables = creditors throughout this formula.
Receivables (Debtors) days **(Receivables'* collection period)**	$\frac{\text{receivables*}}{\text{revenue}} \times 365$ * Receivables = debtors throughout this formula.
Gearing	$\frac{\text{non-current liabilities}}{\text{total equity + non-current liabilities**}} \times 100$ ** Where this equals capital employed.
Dividend per share (in pence)	$\frac{\text{total dividends}}{\text{number of issued ordinary shares}}$
Dividend yield (%)	$\frac{\text{ordinary share dividend (in pence)}}{\text{current market price (in pence)}} \times 100$

Read the **case study** and answer **all** the questions that follow.

First Cars plc

Introduction

First Cars plc is one of the leading car rental businesses in the UK. Established in 1990, it currently employs 300 staff who are located either at the company's head office in Birmingham or at its 30 depots around the UK. *First Cars plc*'s main target market is foreign tourists who need to hire a car on a weekly or fortnightly basis. The company has depots located near all the major airports as well as on the outskirts of popular tourist centres.

First Cars plc's original objective was to increase its market share of the UK car rental market each year. In order to achieve this objective, its marketing strategy has been to offer lower prices than its competitors by offering a 'no frills service'. This involves:

- offering a limited range of vehicles which customers can book only by using the company's website
- operating from cheaper locations
- employing the majority of its staff on temporary contracts, many of whom are students employed only during the tourist seasons
- keeping the marketing budget to a minimum, as the company believes that the combination of low prices and word-of-mouth promotion are the best ways to attract customers.

First Cars plc constantly monitors its competitors' prices and ensures that it always undercuts them. This strategy has been effective for many years but, recently, the company's market share of the UK car rental market has declined. This has been due to increased competition from a leading 'budget' airline operator that is offering its customers flight and car hire packages. It has used the economies of scale that it enjoys to offer very competitive prices. Consequently, *First Cars plc* is involved in a price war with a much larger competitor.

A new direction

Ruel Fox, the Managing Director of *First Cars plc*, believes that the company needs to adopt a new strategy that will differentiate it from the competition. He has recently read a newspaper article about the increasing popularity of car clubs. Ruel considers that entering the car club market could provide a new opportunity for *First Cars plc*. The car club business model consists of the following elements.

- Members pay an annual fee to join. This enables them to hire cars on a 'pay as you go' basis.
- Cars can be hired for a minimum of one hour up to a maximum of one month.
- Members can choose to pick up their car from designated parking bays in a wide variety of locations.
- Access to vehicles is provided by a smart card owned by each member. Inside each vehicle is a hand-held computer console into which the member enters a PIN number. This releases the car keys and also records the details of the journey.

Ruel has asked his Marketing Director, Amy Jones, to investigate this market further and to present her findings for consideration at the next board meeting.

The proposal

Amy Jones had recently joined *First Cars plc* and was keen to make an impact with the business quickly. Her previous employment had been as a graduate trainee with Virgin Airways, where she had achieved rapid promotion to the position of Senior Customer Relations Manager.

Amy explained that the car club target market would be city dwellers who need to use cars only on an occasional basis, such as for going to the supermarket.

In the past two years, growth of car clubs has been fuelled by the rising costs of car ownership caused by increases in petrol, car tax and insurance. Furthermore, increased environmental awareness has resulted in many people questioning their need to own a car.

Amy proposed that *First Cars plc* should initially start in London because of the large potential market and the fact that the Mayor of London had recently announced that he was giving local boroughs £1.5 million to set up car club parking bays. The intention would be to operate the car club as well as the existing car rental business. In the long term, if the car club proved to be a success, *First Cars plc* would convert its car rental operation into a nationwide chain of car clubs.

Amy felt that *First Cars plc* needed to adopt a radically different approach in providing a car club service. High levels of customer service would be vital. The business should aim to provide a vehicle within one hour's notice. This would require a sophisticated website, supported by a 24 hour customer helpline, which members would use to order their vehicles. A dedicated team of 30 employees would be required. They would be expected to be computer literate, multiskilled and to take individual responsibility for solving any customer problems.

Amy believed that customers wanted more than just low prices. "If we can provide high levels of quality, people will be prepared to pay more." The objective would be to become the leading car club operator in London by 2012. To achieve this, an extensive promotional campaign would be required, with a budget significantly greater than the amount which *First Cars plc* currently spends.

In order to gain a strong competitive position, early entry to the car club market would be vital. Amy felt that, with careful planning, *First Cars plc* car club could be operational in less than 26 weeks. "We should aim to launch by August 2010. I have produced a network diagram." (See **Appendix B**).

Amy's proposal generated much debate between her fellow directors. The Operations Director felt that it was too optimistic that this venture could be operational in less than 26 weeks' time. He felt that a period of five weeks to design and test the new website would be very difficult to achieve and could take at least 15 weeks. Concerns were also raised with regard to the cash flow implications. *First Cars plc* has limited financial reserves; consequently, the car club would need to generate cash quickly to be viable. The proposal would be expected to payback in two years and to achieve an average rate of return of at least 12% over a four year period.

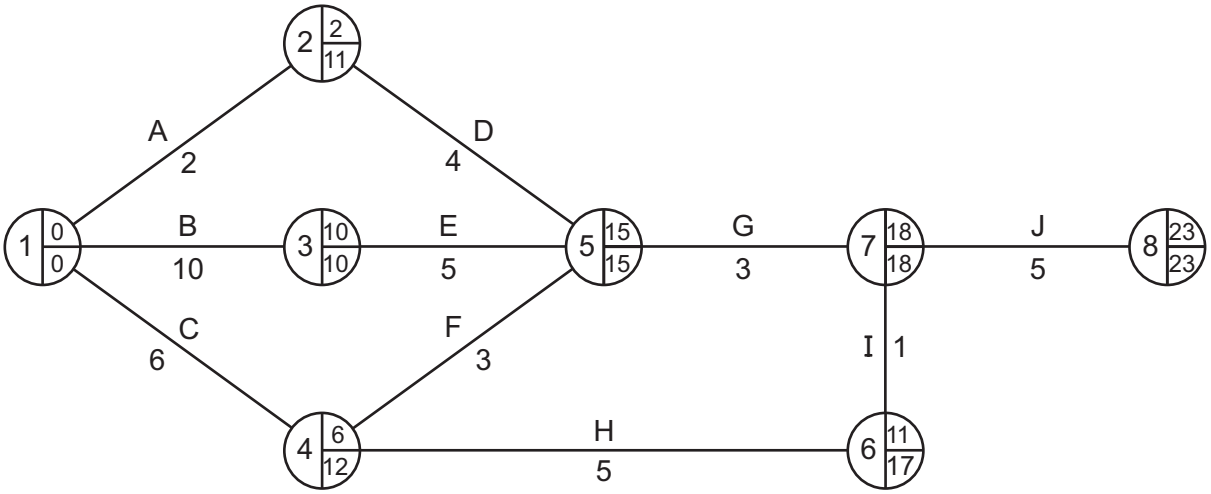
At the end of the meeting, Ruel Fox and his fellow directors concluded that they needed more time to consider whether to pursue this proposal. *First Cars plc* was at a crossroads. Amy's car club proposal had merit, but would it put the business back on the road to success?

Appendix A: Forecasted investment appraisal data for the car club proposal

Forecast initial cost: £8m		
Expected returns	**Cash inflow £m**	**Cash outflow £m**
Year 1	3.0	1.5
Year 2	5.7	2.0
Year 3	6.5	2.2
Year 4	7.4	3.9

Appendix B: Network diagram for the car club proposal

Duration for each activity is in weeks.



Task A	Conduct market research
Task B	Obtain parking bays
Task C	Staff recruitment
Task D	Implement marketing plan
Task E	Purchase vehicles

Task F	Staff training
Task G	Test marketing
Task H	Design and test website
Task I	Launch website
Task J	Advertising campaign

Information provided by Amy Jones

Turn over for Appendices C and D and Questions

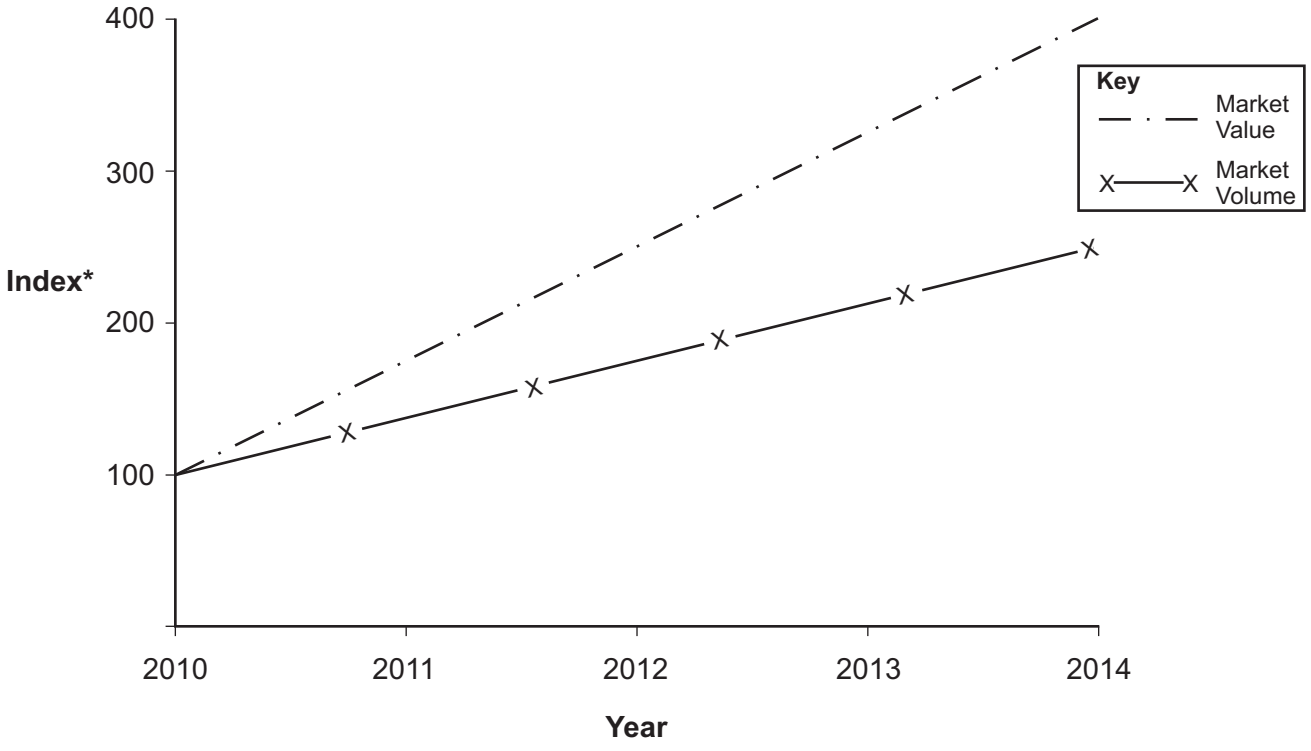
Appendix C: Human resource data (2010)

	Existing operation	Car club proposal
Organisational structure	Centralised	Decentralised
Training budget	£30 000	£400 000
Temporary staff as a % of full-time	80%	10%
Labour turnover	30%	5% (forecast)
Average staff salary	£15 000 pa	£25 000 pa
Location	Birmingham Head Office	Prestigious office in London

Appendix D: Marketing data

First Cars plc's marketing budget (2009)	£1m
Proposed marketing budget for the car club (2010)	£3m
Market share held by current car club market leader (2009)	60%
Predicted rise in motoring costs over the period 2010 – 2014	20%

Forecasts for the car club market 2010 – 2014



*2010 base = 100

Question 1

0 1 Using the data in **Appendix A**, calculate the average rate of return (ARR) for the car club proposal and analyse your results in relation to the Directors' expectations.

(10 marks)

Question 2

0 2 *First Cars plc* has set itself the objective of being the leading car club operator in London by 2012. What do you consider to be the most important issues that the company faces in implementing a workforce plan to achieve this objective? Justify your view.

(16 marks)

Question 3

0 3 The Operations Director considers that it will take at least 15 weeks to design and test the new website. In the light of his concerns, assess the value of using critical path analysis for planning the car club proposal. Use numerical evidence to support your answer. *(18 marks)*

Question 4

0 4 Using all the information available to you, complete the following tasks:

- analyse the arguments **for** the car club proposal
- analyse the arguments **against** the car club proposal
- make a justified recommendation whether *First Cars plc* should adopt the car club proposal. *(36 marks)*

END OF QUESTIONS

There are no questions printed on this page

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