

Centre Number						Candidate Number				
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General Certificate of Education
Advanced Subsidiary Examination
June 2011

Business Studies

BUSS2

Unit 2 Managing a Business

Tuesday 24 May 2011 9.00 am to 10.30 am

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.

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



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BUSS2

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

Chocolate is divine

The UK's chocolate industry has sales of £3600 million a year, but approximately 80% of sales are achieved by Cadbury, Mars and Nestlé. *Divine Chocolate Ltd* is a chocolate manufacturer with its head office in London with a staff of sixteen. It is a social enterprise and profits are reinvested or given to charity. The company's aim is growth and it has achieved an average 20% increase in annual sales since 1998.

The business idea originated in Ghana from a group of cocoa bean farmers called Kuapa Kokoo ('good cocoa growers') who decided to set up a separate company to manufacture chocolate products rather than selling their beans to other manufacturers. They received financial support from Body Shop International and Comic Relief to establish *Divine Chocolate Ltd*; these links have also provided publicity.

Divine Chocolate Ltd operates in the mass market for Fairtrade chocolate bars. Fairtrade chocolate sales in the UK grew by 12% in 2009; much faster than non-Fairtrade sales. *Divine Chocolate Ltd*'s products are not premium-priced; recently, a bar of Divine milk chocolate was priced at 81p, compared with 82p for a similar sized bar of Cadbury Dairy Milk. Price elasticity of demand for chocolate has been estimated at -0.3 in the UK.

Figure 1: Selected financial information for Divine Chocolate Ltd and Cadbury plc, 2007 and 2008

	Divine Chocolate Ltd		Cadbury plc	
	2008 £m	2007 £m	2008 £m	2007 £m
Total revenue	Figures are not reproduced here due to third-party copyright constraints.		5 384	4 699
Cash balance			251	493
Net profit			648	286

As a Fairtrade company, *Divine Chocolate Ltd* pays Kuapa Kokoo a premium price for its cocoa beans, 10% above the world price. Kuapa Kokoo has increased in size to 45 000 small-scale farmers and now represents 11% of Ghana's output of cocoa beans. It owns 45% of *Divine Chocolate Ltd*, influences company decisions and receives a share of profits. These profits have been used to help communities in Ghana by, for example, building four schools.

Divine Chocolate Ltd has established a separate company in the USA which achieved sales of over \$1 million in its first year. The success of *Divine Chocolate Ltd*'s business model was one factor leading Cadbury to announce in 2009 that Dairy Milk would become the first mainstream Fairtrade chocolate bar. Fairtrade suppliers in Ghana, India and Indonesia receive a 'premium' of £95 a tonne above market prices (of approximately £1000 per tonne).

Sources: Divine Chocolate Annual Report 2007/8, www.divinechocolate.com and Cadbury figures reproduced with the kind permission of the owner, Cadbury UK Ltd.



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

1 (a) (i) Calculate *Divine Chocolate Ltd*'s net profit margin for **2008 only**.

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(3 marks)

1 (a) (ii)

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Question 1 continues on the next page

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1 (b) Analyse **two** influences on *Divine Chocolate Ltd*'s pricing decisions.

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Has *Divine Chocolate Ltd* made the right decision to use Kuapa Kokoo as its major supplier of cocoa beans? Justify your decision.

[illegible]

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- 1 (d)** Has *Divine Chocolate Ltd* become a more competitive company over time?
Justify your view.

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Turn over for the next question

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

Eggcentric Ltd

Rob Hill spotted a business opportunity in the growing popularity of keeping chickens in gardens. He established *Eggcentric Ltd* to manufacture distinctively designed plastic housing for chickens. The company supplies high-quality (and high-priced) products of which only 3.2% are returned as faulty, though this figure is rising. It has extended its product range to housing for other animals and beehives. The company has used bank loans to extend its factory and to purchase new machinery.

Despite intense competition from larger competitors, sales have risen annually by an average of 70%. *Eggcentric Ltd* spends little on marketing, relying on word-of-mouth and publicity in newspapers and on television. In 2010, 60% of sales were to existing customers.

Rob is a natural entrepreneur and is more interested in new projects than managing the existing business. Recently, he started providing training courses for people who keep poultry and bees and has two further projects planned. As *Eggcentric Ltd* has grown, it has maintained a flat organisational structure and used delegation as a key part of managing the workforce. In 2010, *Eggcentric Ltd's* workforce increased from 24 to 38. Rob believes that an effective recruitment and selection system is the essential factor to improve the future performance of his workforce.

In early 2011, B&Q, one of the UK's largest DIY stores, offered to sell *Eggcentric Ltd's* products. To do so, it required 60 days' trade credit and wanted high stock levels in all of its stores. Seeing the opportunity for growth from this order, Rob accepted it.

Figure 2: Eggcentric Ltd Key Data

Percentage of annual sales achieved during the summer months of May–August	73%
Change in labour productivity during 2010	–5.3%
Percentage of workforce who are permanent full-time employees	93%
Average level of labour turnover 2008–2011	34%
Average pay rates as a percentage of that paid by similar businesses	91%

Eggcentric Ltd's cash position has become increasingly weak and it has had to ask its bank for steady increases in its overdraft limit. The bank is insisting on detailed cash flow planning for 2011–2012. As a consequence, Rob has developed more detailed business plans.



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- 2 (b)** Analyse **two** likely consequences of Rob's decision to use delegation as a key part of managing the workforce of *Eggcentric Ltd*.

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2 (d)

Rob believes that an effective recruitment and selection system is the essential factor to improve the future performance of his workforce. Do you agree with him?
Justify your view.

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