

**ADVANCED GCE
BUSINESS STUDIES**

Business Strategy

2880

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 16 page Answer Booklet

Other Materials Required:

- A calculator may be used

Tuesday 25 May 2010
Morning

Duration: 2 hours



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- If you use extra sheets of paper, fasten these sheets to the Answer Booklet.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **80**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.
- This is a synoptic paper. When answering each question you must use the knowledge and skills gained throughout the whole A-level course.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

Answer **all** the questions.

- 1** Discuss the extent to which holding two franchises will impact upon MGL's ability to achieve its own objectives. **[18]**
- 2** Should MGL expand its product range by installing a high pressure car wash? Justify your answer. **[19]**
- 3** How might an increase in interest rates affect the strategic direction of MGL? **[19]**
- 4** Create, and justify, a strategy which could boost MGL's profitability. **[20]**

Moorhead's Garage Ltd (MGL)

The major shareholder of Moorhead's Garage Ltd is Irene Moorhead. It was her capital and her brother Albert's mechanical knowledge which enabled them to feel confident enough to buy the garage in 1956 as a going concern. Although conscious of the potential loss of goodwill they nonetheless changed the trading name of the business. However, it was decided to retain the corporate identity. Albert's interest in the business is threefold. First, he is a minority shareholder, (see Table 1). Second, he owns the site which he rents to the company for a modest annual rent. Third, his salary from the business is his major source of income.

5

Table 1

Moorhead's Garage Ltd Unaudited accounts for the financial year 2009

P & L Account year ending 31/1/2010		Balance sheet as at 31/1/2010	
	£		£
Sales	2,964,559	Fixed Assets	
Cost of sales	2,699,359	Equipment (2)	85,551
Gross Profit	265,200	Fixture & fittings	18,754
Other income			104,305
Bonus & Commissions	15,090	Current assets	
Operating profit	280,290	Stock	137,750
<i>Less expenses</i>		Debtors	85,722
Employment costs (1)	159,838	Cash	9,874
Rates	6,591		233,346
Rent	6,000	Creditors falling due within one year	
Utilities	7,003	Suppliers (3)	68,630
Office	6,895	Suppliers (4)	17,025
Advertising & promotions	17,481		85,655
Insurance & security	8,455	Net Current Assets	147,691
Auditors & legal fees	4,959		
Miscellaneous	1,997	Net Assets	251,996
Depreciation	6,896		
Bank interest	3,885	Capital and reserves	
Total expenses	230,000	Share capital (5)	1,000
		Reserves	210,996
Net profit	50,290	Creditors falling due after one year	
		Director's loan	40,000
		Capital employed	251,996

Notes

- (1) – Net of NI and other costs
- (2) – Net of 25% reducing balance depreciation
- (3) – Fuel suppliers
- (4) – Other creditors
- (5) – 1,000 full paid up £1 shares
- Mrs I. E. Moorhead – 850 shares
- Mr A. R. Moorhead – 100 shares
- Mr M. M. Moorhead – 50 shares

A high pressure car wash, thought Albert, would be an ideal use for the unused part of the site. The area is just off the main forecourt and visible from both the main road and the shop. Further, not only is it large enough but it already has a slight slope which would aid drainage and so, according to a local builder, keep the capital cost of the installation down. The builder estimates it would take three weeks for initial ground work and a further three weeks for laying the hard standing. The lead time for the machinery is at least eight weeks (see Table 2 and Figure 1). The machinery would be installed by a contractor recommended by the manufacturer. Once the site is ready all that would be required would be some final touches, which should not take more than about a week, and the garage would have another facility to attract customers. With the nearest car wash five miles away Albert is convinced his customers would use it, especially in winter. The less than positive response from the local planning authorities was expected; they automatically say 'no' to every planning application on first submission. However, the position of his bank is less clear. Albert thought that, because the business has been a loyal customer for over 35 years, there would not be a problem in getting a three year loan of £25,000. When the new manager in his local branch had said something about having to refer it to his regional business adviser, Albert had taken this to be nothing other than one of their internal formalities. Consequently when Albert read the bank's response he was dumbfounded, annoyed and confused by their attitude. The letter said they would be prepared to lend the capital to Albert as a personal loan but not to lend to the business. This would allow Albert to lend the business the money as a further Director's loan.

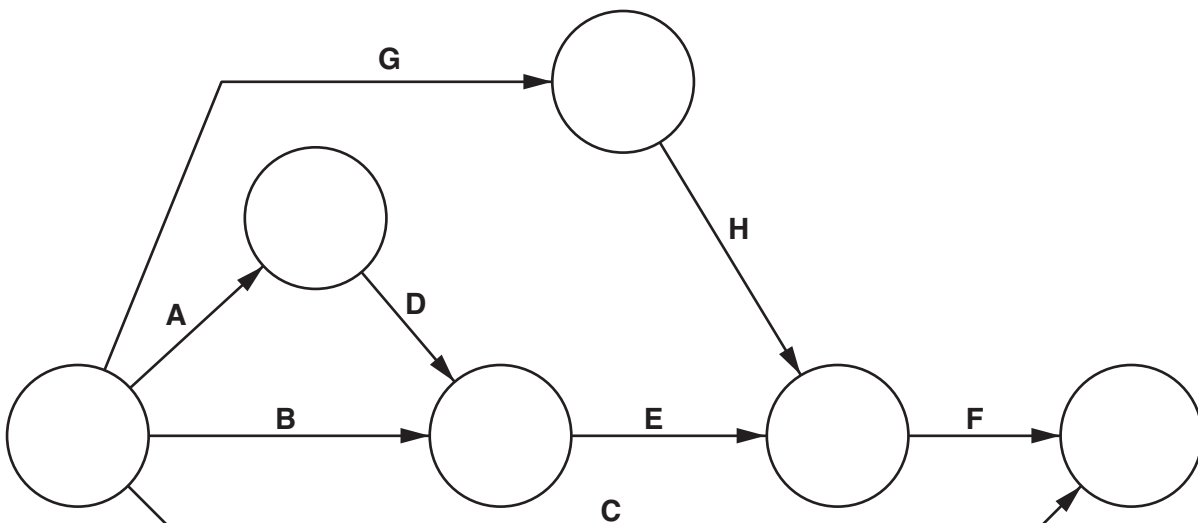
Table 2

Car wash project
Activity details and estimated durations

A	Ground work, drainage, gradient	3 weeks
B	Order and await delivery of machinery	8–10 weeks
C	Book newspaper advertising of car wash	1 week
D	Lay hard standing	3 weeks
E	Install machinery	1–2 weeks
F	Snagging and safety checks	1–2 weeks
G	Order and await delivery of signage	6 weeks
H	Install signage	1–2 weeks

Fig 1

Car wash project – Activity relationships



Situated at the junction of two busy A roads on the edge of a village, the business has grown in size such that, in addition to fuel, it now sells and maintains cars. Twelve years ago MGL became a franchised retail outlet for an imported brand of car by becoming an agent. More recently it has started to sell second hand cars, most of which are sourced through the trade, although some are taken as trade-in against newer vehicles. Since the closure of the village post office the forecourt shop has become increasingly important to the local community. The business currently employs eleven full-time staff. There are three full-time mechanics who work under the supervision of Bryan Keown, the workshop foreman. Three months ago the business hired Bryan's son, Nigel, as an apprentice. Nigel goes to a local college one day each week as part of his studies for a vocational qualification in vehicle maintenance. The sales department consists of Michael, Irene's son, and a full-time employee with the title Sales Executive. Irene administers the business, is the Accountant and is Company Secretary. Albert's formal position is Managing Director whilst his day-to-day role is General Manager. He takes specific responsibility for the forecourt, and supervises the forecourt sales staff. The garage forecourt is open from 6.00 until 22.00, 365 days per year.

MGL now operates two franchises. The fuel franchise is held with a major supplier which has one of the largest market shares within the retail fuel sale market. The supplier is vertically integrated, although it does not own all of the retail sites it sells through. As a franchisee, MGL does not have complete operational control. Indeed, the level of prescription from both franchisors is such that Irene and Albert feel there is little they can do to boost the profitability of the business. Irene has drawn up a profit projection for the coming year which shows a fall in the company's profits, (see Table 3).

Table 3

Budget for 2010

By profit centre

	Fuel	Shop	Car sales	Workshops	Total
Revenue	2,477,200	126,500	605,000	211,200	3,419,900
Direct costs	2,412,300	101,200	521,400	93,500	3,128,400
Indirect costs	23,500	47,000	70,500	117,500	258,500
Profit/ loss	41,400	-21,700	13,100	200	33,000

MGL is encouraged by the fuel supplier to set the price of petrol at a level which reflects that at other key 'marker sites' in the locality. Consequently, gross margins on fuel are typically about a 1p per litre. Similarly, a complicated dealer commission scheme operated by the car supplier ensures that it is financially inadvisable to deviate from the manufacturer's recommendation. Further, all planned routine maintenance on cars is subject to menu prices set by the manufacturer. To ensure compliance, the manufacturer has the right under the franchise agreement to examine the business' accounts. This right was last exercised eighteen months ago. Although neither franchisor has yet to prescribe the appearance of the garage, Albert is aware that both would like the business to be 'more in line with the corporate identity projected by a major motoring brand proposition'. Whilst the signage and pumps on the forecourt make it instantly recognisable as a branded outlet the shop still retains an air of individuality.

The forecourt shop is a worthwhile source of income for MGL. The layout of the shop is designed to maximise the possibility of impulse purchases. The goods sold include a few motoring items, confectionery, news and magazines through to basic grocery provisions. Albert decided to extend this range after one of the shop staff suggested selling fresh vegetables. Early indications are that many customers appreciate the ability to put these heavy items straight into their cars rather than having to carry them around a town. However, Albert still worries about the reliability of the wholesaler and his own ability to forecast customer demand. Deciding stock levels for fruit and vegetables is something he simply does not have expertise in. All of his experience is dealing with fuel and vehicle spares, neither of which is perishable. Ordering fuel is straightforward. The garage has four fuel storage tanks, (see Table 4). Albert merely has to telephone the depot and place an order. Delivery is guaranteed within 72 hours but it is usually the next day. Historically, unleaded outsells diesel by a ratio of 2:1. Last year weekly sales for all fuels averaged 55,000 litres. There is little seasonality in the fuel market; additional sales to passing summer drivers compensates for a fall off in local sales during holiday periods. Albert believes that his sales volumes are higher because he sells a major brand.

65

70

75

Table 4**Fuel tank and sales**

Tank	Fuel	Capacity, litres	Weekly sales
1	Unleaded	30,000	55.0%
2	Diesel	14,500	27.5%
3	LPG	6,000	12.5%
4	Super unleaded	2,000	5.0%

There are two full time forecourt sales staff, one working 06.00 to 14.00 and the other 14.00 to 22.00. Both work a forty hour week, forty eight weeks a year. The staff's ninety minutes of rest-breaks per day are covered by either Albert or Irene as their other commitments allow. Albert values the understanding and flexibility of his permanent staff. Indeed, he views his staff more as friends than employees and believes the business has a family culture. Staffing for weekends and holidays is covered by casual staff. Currently the business has eight such staff. These casual staff work flexible hours in agreement with Irene and Albert. Finding and retaining suitable casual staff has long been difficult for a number of reasons (see Table 5). First, the affluence in the village is such that there are few locals who feel the need to work on a casual basis. Second, the job is not one that has many prospects or intrinsic challenges. Third, there is the perceived security risk of working alone in the evenings. Fortunately MGL has yet to suffer a robbery, although a police officer once suggested to Irene that it was probably only a matter of time. His view was that the security cameras and other precautions insisted on by the insurance company offer little deterrent. In an ideal situation Albert would like to employ only full time staff but recognises this would have some disadvantages.

80

85

90

Table 5

Severances

Date	Name	Department	Status	Reason
1/6/2009	Josh Regis	Forecourt	Casual	Unknown
31/8/2009	Ben Gwinett	Forecourt	Full Time	Retirement
31/8/2009	Stephanie Griggs	Forecourt	Casual	University
1/12/2009	Jack Chisholm	Workshop	Full time	Higher wages elsewhere
15/1/2010	Chloe Gorman	Forecourt	Casual	Pregnancy

Albert looked again at his site for the car wash. Perhaps, given all of the problems inherent in running the business, investing in a car wash is not such a good idea. Not knowing how long it will take to get it up and running is just one of many issues to consider before embarking on yet more capital expenditure. Most sensible people of his and his sister's ages were thinking about retiring. Giving themselves even more work, and worries, for so little reward hardly seems worthwhile. Maybe, thought Albert, he should talk the matter through with Irene.

**Copyright Information**

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations, is given to all schools that receive assessment material and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1GE.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.