

Surname	Centre Number	Candidate Number
First name(s)		2



GCE A LEVEL

A510U20-1



WEDNESDAY, 13 OCTOBER 2021 – MORNING

BUSINESS – A level component 2
Business Analysis and Strategy

2 hours 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	8	
2.	10	
3.	6	
4.	25	
5.	19	
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.



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Answer all the questions in the spaces provided.

1. B&M is a UK-based retailer which focusses on selling well-known brands but at low profit margins. Its **vision statement** is *'to be Britain's number 1 variety retailer'*. This helps them to determine its **SMART objectives**.

(a) Outline what is meant by the term *SMART objectives*. [2]

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(b) Explain the purpose of a *vision statement* for B&M. [6]

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2. A manufacturing business needs to update its production equipment and is deciding between two alternative machines, as it can only afford to purchase one of them. Machine A costs £120 000 and it will allow the business to expand the variety of products that it makes. Machine B costs £95 000 and it will speed up current production levels by 20%. It has estimated the net cash flow for the next five years for each of the machines:

Year	Machine A Net Cash Flow £	Machine B Net Cash Flow £
1	20 000	30 000
2	30 000	40 000
3	45 000	40 000
4	50 000	30 000
5	60 000	30 000

The table below shows the discount factors over 5 years at a rate of discount of 5%.

Year	Discount rate of 5%
1	0.95
2	0.90
3	0.86
4	0.82
5	0.78

- (a) Outline the purpose of investment appraisal to a business.

[2]

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(b) Using the discounted cash flow method (DCF) of investment appraisal, calculate the net present value (NPV) of each machine. [4]

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(c) Taking into account both quantitative and qualitative factors, assess which machine is the best option. Justify your choice. [4]

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3. Some entrepreneurs believe that they are far too busy running their businesses to worry about completing budgets and budget variance analysis.

To what extent do you agree with the view that it is not worthwhile for entrepreneurs to complete budgets and budget variance analysis? [6]

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4. Just Eat offer a service enabling customers to order and pay for food online that is then delivered to their home. Food outlets use Just Eat's platform to receive orders from customers. Each UK food outlet processed on average 2300 orders from the Just Eat platform in 2017. Just Eat charges between 13% and 14% commission on each order and has seen significant growth since first launching in 2001, taking advantage of the ever-growing takeaway market in multiple countries. It now employs 2900 employees worldwide and 82% of which say they are proud to work at Just Eat.

Just Eat are working with the Food Standards Agency to ensure standards are kept high and to keep pace with industry regulations.

In 2017, Just Eat successfully acquired its rival hungryhouse and in 2018 the market value for Just Eat was greater than that of Sainsbury's and Morrisons. In the UK in 2018, of every £1 spent on food by consumers, 12p was spent on takeaways.

However, strengthening competition from companies such as Deliveroo have recently hit profits, seen especially in the Australian and New Zealand markets. This has led to restructuring and other costs which have affected worldwide profitability levels.

Table 1: Performance data for Just Eat worldwide.

	2013	2014	2015	2016	2017
Revenue (£m)	96.8	157	247.6	375.7	546.3
Pre-tax profit/loss (£m)	10.2	57.4	34.6	91.3	(76)
Orders (millions)	40.2	61.2	96.2	136.4	172.4
Active customers (millions)	5.9	8.1	13.4	17.6	21.5
Food outlet partners	36400	45700	61500	68500	82300

Table 2: Balance sheet extracts for Just Eat.

	2017 £m	2016 £m
Non-current assets	722.1	889.2
Current assets	292.6	159.2
Current liabilities	248.5	151.9
Non-current liabilities	39.5	70.8
Net assets	726.7	825.7

The current ratio for 2016 is 1.05:1.

Source: https://www.justeatplc.com/files/s3/4715/2148/4276/Just_Eat_Annual_Report__Accounts_2017.pdf



(a) Explain how **two** trends in the data in **Table 1** could be useful to the senior managers of Just Eat. [4]

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(b) Using the information in **Table 2**, calculate the current ratio for Just Eat for 2017. [2]

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(c) Assess the liquidity position of Just Eat. [3]

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(d) With reference to Just Eat, explain **two** non-financial measures that it could use to analyse its performance. [6]

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(e) Consider the **opportunities** and **threats** that are likely to affect Just Eat's business strategy. [10]

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5. Debra owns and operates a small chain of theatres in the South West of England. Debra has some flexibility over the prices she charges for the tickets and has to consider the level of the price elasticity of the tickets. This means that her pricing decision is extremely important, especially because maximising capacity utilisation is vital in the theatre industry.

At one of Debra's theatres (with a capacity of 1 200 seats) tickets are priced at £50 each. Average seat sales at performances were 1 080. However, to increase revenue she is considering increasing the price to £58 and estimates that her capacity utilisation will decrease to 72%.

- (a) Calculate the price elasticity of demand for the theatre tickets. [4]

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- (b) Explain how this level of elasticity may impact Debra's pricing decisions. [2]

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Debra is considering ways to grow her business further and is considering the following three options:

Option 1: Hiring out her theatres to businesses to use for corporate events, but this would require some investment in social spaces and meeting rooms.

Option 2: Invest in a cinema screen to be able to show films in addition to live performances.

Option 3: Invest in a new marketing campaign to try to improve her capacity utilisation levels.



She has compiled the following information:

	Cost (£)	Probability of success	Return if successful (£)	Return if unsuccessful (£)
Option 1	70 000	0.7	110 000	80 000
Option 2	50 000	0.6	100 000	40 000
Option 3	20 000	0.8	55 000	15 000

- (c) Use the information to construct a decision tree diagram and calculate the net return on each option. [5]



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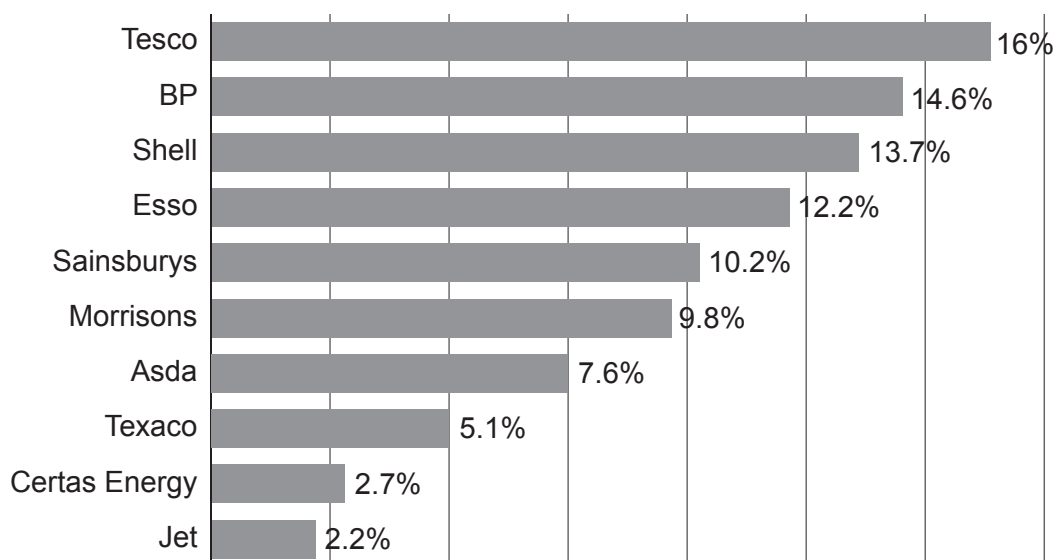
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6. Esso is a company that has over 1 000 petrol stations across the UK, selling petrol and diesel fuel. It operates in an industry with many competitors such as Shell, BP and Tesco and the industry is undergoing many developments such as the increased use of hybrid and electric cars. In January 2019, there was a 20.3% decrease in the sale of diesel cars, with a 26.3% increase in the sale of hybrid and electric cars. However, there was a 7.3% increase in the sale of petrol cars.

The price of petrol is mainly dictated by the global oil market, but UK supermarkets have managed to offer cheaper prices through their financial stability and marketing schemes. Whilst supermarkets mainly focus in town centre locations, many traditional petrol stations are also located in rural areas and service stations on motorways. Esso is owned by ExxonMobil, who produce and supply its fuel.

Figure 1: UK petrol station market share 2018



Source: <https://www.statista.com/statistics/312071/motor-fuel-market-share-by-brand-in-the-united-kingdom-uk/>

Considering **three** of Porter's Five Forces, evaluate how Esso may adapt its business strategy to respond to conditions in the marketplace. [12]

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Question number	Additional page, if required. Write the question number(s) in the left-hand margin.
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