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<h1 style="margin: 0;">Business</h1> <p style="margin: 5px 0;">Advanced</p> <p style="margin: 0;">Paper 2: Business activities, decisions and strategy</p>			
Monday 11 June 2018 – Afternoon		Paper Reference	
Time: 2 hours		9BS0/02	
You do not need any other materials.			Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- You may use a calculator.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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Answer ALL questions.

SECTION A

Read the following extracts (A to D) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Mumtaz Food Group

Mumtaz is an Asian food producer in Bradford. It is a private limited company owned and run by the Akbar family. Established as a takeaway restaurant in 1979, it now owns three restaurants and food processing factories that make ready meals. It has always used internal finance to establish and grow the business.

5

Mumtaz has sales revenues of around £25m. Unlike many of its rivals that produce ready meals for the supermarkets' own label brands, Mumtaz sells most of its products under the Mumtaz premium brand name. Asda, Morrisons and Tesco are among the supermarkets that sell Mumtaz products and they are also sold in more than 40 countries. The ready meals part of the Group is growing by 15-20% a year.

10

In 2006, a new product range of Halal baby food was launched after Mumtaz became aware of how difficult it was for Muslim parents to find Halal baby food. Today, roughly half of all Mumtaz baby food is bought by non-Muslim customers.

Mumtaz intends to continue to expand by organic growth. It recently opened a second factory in Bradford to meet the increased demand for its ready meals. It is also considering setting up manufacturing operations in Asia.

15

(Source: adapted from © 2017 Johnston Publishing Ltd)

Extract B

Cost, sales and revenue data for a food producer

Annual fixed costs	£3m
Selling price per unit	£5
Variable cost per unit	£2
Number of units sold	1.5m

Extract C**UK Economic data for 2016 and forecasts for 2020**

Economic indicator	2016	2020
Economic growth (change in GDP)	0.5%	1%
Inflation	1.2%	2.7%
Unemployment	4.8%	6.5%
US\$ to the £ exchange rate	1.23	0.99

(Source: adapted from www.tradingeconomics.com/united-kingdom/forecast)

Extract D**The UK ready meals market**

The UK ready meals market grew by 2% in volume and value in 2016. Sales of ready meals benefitted from the trend towards premium products amongst consumers. The popularity of ready meals was due to their convenience, as well as the growing number of single-person households.

5

Supermarkets' own label products remained the leader in ready meals with a combined 68% market share, with Tesco having the highest percentage of 18%. Retailers offer different recipes which, in turn, help them to meet a wide range of consumer tastes. Supermarkets' own label products also rely heavily on price discounts and promotional offers in order to attract more price-sensitive buyers.

10

Convenience is likely to be an important factor in driving sales of ready meals, but so is the introduction of new product ranges.

(Source: adapted from © 2017 Euromonitor)

- 1 (a) Explain **one** reason Mumtaz has always used internal finance to establish and expand its business.

(4)

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(b) Using the data in Extract B, calculate the margin of safety. You are advised to show your working.

(4)

(c) Assess whether expanding by organic growth was the right decision for Mumtaz. (10)

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- (d) Using the data in Extract C, assess the likely impact of the forecast changes in the UK economy on a business such as Mumtaz.

(12)

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Mumtaz's aim is to become the UK's market leader in Asian ready meals. To achieve this, it could produce own label ready meals for supermarkets or focus on selling more Mumtaz premium brand name products.

- (e) Evaluate these **two** options and recommend which is most suitable for Mumtaz to achieve its aim.

(20)

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(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS

SECTION B

Read the following extracts (E to H) before answering Question 2.

Write your answers in the spaces provided.

Extract E**The business failure of MG Rover Group**

The MG Rover Group was the last UK-owned mass-production car manufacturer in the British motor industry. The company failed in 2005.

MG Rover Group did not produce new and improved cars and its existing brands, such as 'Triumph' and 'Rover', competed with each other. The original Mini, which was produced by MG Rover Group, sold in millions of units but never made much profit because of its high production costs. Also, UK consumer tastes were rapidly changing as they preferred new foreign cars.

5

(Source: adapted from ©2014 Nomura Research Institute, Ltd)

Extract F**Production and wage cost data for a car manufacturer**

Monthly output	20,000 cars
Number of production workers	400
Labour cost per worker per month	£2 000

Extract G**Toyota test drives a new hybrid**

Toyota shareholders last week approved the issue of 50 million new shares – and not just any new shares.

The new 'Model AA' shares must be held for five years and cannot be sold earlier. Toyota will pay a guaranteed dividend that increases each year through the five-year period. At the end, shareholders can sell the shares back to the company at the price they paid, or convert them to ordinary shares. 5

The idea, according to the company, is to raise \$4 billion from long-term investors, so that Toyota can invest in the car of the future. Applications for the shares were about 10 times more than the amount on offer. The firm's managers see this investment as a response to short-termism. Sheltered from some of the pressure to drive the share price up immediately, Toyota's managers will be able to look further ahead. 10

Some business analysts have criticised these shares for giving managers too much protection from the demands of shareholders.

(Sources: adapted from © 2017 Bloomberg L.P and © Crain Communications, Inc)

Extract H**Changes at Volkswagen (VW)**

VW aims to create 9,000 new jobs as it shifts to self-driving cars. The new Chief Executive, Matthias Müller, said it was "the biggest modernisation programme in the history of the group's core brand. The VW brand needs a real shake-up".

During a presentation at the Paris Motor Show, Matthias Müller said that VW has teamed up with Gett – a rival to Uber - to create a self-driving mobility service for businesses. 5

In 2016, VW cut 30,000 jobs globally, partly due to the falling popularity of its diesel cars. This was a consequence of VW being fined \$15bn for cheating in emission tests on its diesel cars. The VW brand was struggling even before the emissions scandal damaged its reputation. It had weak profitability, high labour costs and a complex organisational structure. 10

(Sources: adapted from © Independent Digital News and Media Ltd and © Associated Newspapers Ltd)

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2 (a) Explain **one** internal cause of the business failure of MG Rover Group.

(4)

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- (b) Using the data in Extract F, calculate the monthly labour cost per car. You are advised to show your working.

(4)

(c) Assess the likely effects of employee legislation on a business such as VW.

(10)

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Corporate timescales can be short-term or long-term.

(d) Assess Toyota's decision to issue 'Model AA' shares as a means of raising finance.

(12)

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VW's new Chief Executive has been given the aim of increasing the company's profitability. The two options VW is considering are to develop a new range of self-driving cars or to improve productivity.

- (e) Evaluate these **two** options and recommend which is most suitable to achieve the aim of increasing profitability, for a business such as VW.

(20)

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(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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