



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education

Business Studies

Assessment Unit AS 2
assessing
Growing the Business



SBU21

[SBU21] Assessment

TIME

1 hour 30 minutes.

Assessment Level of Control:

Tick the relevant box (✓)

Controlled Conditions	
Other	

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **both** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in Question 1 parts (b), (c) and (d) and Question 2 parts (b), (c) and (d).

Quantitative skills will be assessed in Question 1 parts (a) and (d).

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

Any workings should be clearly shown since marks may be awarded for partially correct solutions.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Read the following information and answer the questions that follow.

1

Virtual Properties

Mr David McCool is an estate agent specialising in purchasing and selling private residential properties such as bungalows, houses and apartments. Mr McCool has been trading as “Virtual Properties” and recently invested £0.5 million upgrading the existing chain of estate agent showrooms located in Lisburn, Bangor and Coleraine. The renovations were financed using a bank loan. In addition, a virtual reality (VR) system was also purchased, costing £51,000 – partly financed using a bank overdraft. This latter expenditure has affected the cash balance of the business.

Market research findings have influenced the new and improved physical environment of each of the premises – incorporating luxurious lounge-style waiting areas, an interactive “kids zone”, free wi-fi and a coffee bar. Such facilities are aimed at providing customers with a unique experience, whether it is in respect of acquiring a property (for example, as a first-time buyer) or enabling a customer to sell an existing property.

Mr McCool pointed out that the upgraded showrooms feature unique state-of-the-art “virtual reality” rooms. These spacious rooms have a larger area in which to place interactive screens, customer seating and accessories (e.g. soft furnishings – cushions, mats).

Mr McCool said, “The new virtual reality showrooms will provide our customers with a highly professional sales experience.” The use of an online VR system means that customers no longer need to arrange time-consuming visits to view properties – customers can view potential properties in 3D and interact with sales staff at all stages of the process to ensure their properties meet stated preferences. The VR system reduces the time taken to sell a property on behalf of a customer and enables the estate agency to increase sales revenues by increasing the number of properties sold.

Market research data enables Virtual Properties to better understand its customer needs in respect of:

- Property type (e.g. bungalow, house or apartment, detached or semi-detached properties)
- Property specification (e.g. brickwork, double-glazing)
- Property price (e.g. price ranges: (i) under £100,000; (ii) £100,000–£499,999; (iii) £500,000+)
- Location

Mr McCool uses market research to analyse trends in the market relating to demand for various types of properties.

Table 1 (below) summarises key data from the financial statements of Virtual Properties.

Table 1: Key Financial Data

Financial Year	2019	2018
Financial Data	£	£
Sales Revenues	1,980,000	1,860,000
Net Profits	118,800	37,200
Closing Cash Balance	-11,000	40,000
Accounting Ratios		
Return on Capital Employed	9%	3%
Net Profit Margin	6%	2%
Current Ratio	0.8:1	2:1
Gearing Ratio	60%	30%

Mr McCool's accountant highlighted the following:

- Properties in the higher price ranges attract higher profit margins
- Return on Capital Employed was as expected.

- (a) Explain the difference between cash and profit in Mr McCool's business, using **one** example. [4]
- (b) Analyse **two** ways in which Mr McCool effectively uses the physical environment element of the marketing mix to attract customers. [8]
- (c) Analyse **three** reasons why Mr McCool would use market research in his business. [10]
- (d) Evaluate Virtual Properties' business performance for the period 2018–2019, using the accounting ratios stated in **Table 1**. [18]

Read the following information and answer the questions that follow.

2

Harbour Car Hire

Harbour Car Hire is a car rental company which provides customers access to car hire services in Northern Ireland. Harbour Car Hire started business in 2017, operating from two branches located near the ports of Belfast and Larne. Each branch provides customers with different types of vehicles to choose from, depending on price, gender and age (minimum 21 years of age). These include SUVs, sports cars, saloon cars, people carriers and economy cars, aimed at meeting the needs of each segment of the market. All branch locations have highly trained staff, who provide excellent standards of customer service.

The car rental market in the UK is highly competitive in nature. **Table 2** (below) provides an overview (estimated) of the main competitors in the UK car rental market.

Table 2: UK Car Rental Market (estimated)

Car Rentals	2015	2017	2019
	% Market Share	% Market Share	% Market Share
Europcar/Avis/Hertz/ Sixt/Enterprise	84	72	62
Harbour Car Hire	–	1	3
Others (incl. local car hire firms such as Practical Car & Van Hire)	16	27	35

Ms Jenny Long (General Manager) noticed that Harbour Car Hire's market share was lower than the 5% forecasted for the year 2019. She observed that other rivals such as Practical Car & Van Hire had entered the car hire market in Northern Ireland, commanding an estimated market share totalling 35%. To increase market share, Jenny plans to undertake:

1. An expensive advertising campaign.
2. Review its current pricing policy, which indicates that Harbour Car Hire prices are approximately 5.5% cheaper than its competitors.
3. Constant monitoring of its car rental market through market research findings.

The following are sample customer reviews posted on social media:

The Bell Family:

"Family of six with four kids – we hired a people carrier from Harbour Car Hire in Larne over a long weekend in April. Great low price suited our family budget as we could afford the average cost of £40 per day. Great value. Would use again."

Mr R. Jones:

"I hired a sports car for three days last week from the 'premium range'. Lovely car to drive and lots of extras included in the price. Excellent customer service (Rick, 25-year-old business executive)."

Harbour Car Hire’s profit for the year 2019 was £10,000. This was lower than expected and, as a result, Jenny has introduced a system of budgeting in order to improve decision making, planning and control of costs in the business (e.g. wages, car cleaning costs).

Table 3 (below) summarises the estimated use of various booking channels by UK car rental companies.

Table 3: Car Rental Booking Channels (estimated)

	2015	2017	2019
	%	%	%
Online	60	61	90
Telephone/Office visits	40	39	10

Harbour Car Hire is heavily reliant on the use of the internet to function effectively and profitably. Increasing use of the internet will allow:

1. Management to use it as a management information system
2. Customers to select and book specific vehicles for hire on the basis of:
 - vehicle type
 - engine size
 - price
3. Customers to confirm:
 - dates of rental and payment
 - additional extras (e.g. child restraints, insurance)
 - online check-in
 - social media comments

Jenny is conscious that she needs to examine ways in which to grow the business if she is to achieve the objective of increasing profitability.

- (a) Explain the role of **budgeting** to Harbour Car Hire when making decisions, using an example from the case study. [4]
- (b) Analyse **two** ways in which Harbour Car Hire’s manager can segment the market for car hire. [8]
- (c) Analyse **three** ways in which the market share of Harbour Car Hire can be improved. [10]
- (d) Evaluate the use of the internet by Harbour Car Hire as it seeks to increase market share. [18]

THIS IS THE END OF THE QUESTION PAPER

Sources:

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