

[C010/SQP048]

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Intermediate 2  
Business Management  
Specimen Question Paper

Time: 1 hour 45 minutes

NATIONAL  
QUALIFICATIONS

75 marks are allocated to this paper: 25 marks for Section **one** and 50 marks for Section **two**.

## SECTION ONE

[This Section should take you approximately 35 minutes]

Read the following case study.

### UNEMPLOYMENT OFF THE MENU

#### Background

Carole McNiven started serving in bars and waiting on tables. She eventually became a restaurant manager and built up a degree of expertise in a variety of human resource areas and took an active role in preparing financial statements.

Carole and her daughter Lynsey (who has a degree in Hospitality, Management) started up their own catering business—Hospitality Limited—now a thriving, small company in the centre of Edinburgh. The business is based in an old bakery and has no shop front, so does not sell to passing customers.

#### Present

Hospitality Limited caters for local businesses by delivering pre-packed sandwiches to their premises. It also provides buffet style lunches and evening meals for any businesses in the city centre which require them. These involve preparing food for between 5 and 50 people on each occasion. The organisation would like to become involved in one-off private events such as small dinner parties, wedding/funeral buffets and office openings. By doing this, a higher profit margin might be achieved because a higher price could be charged.



Hospitality Limited employs 10 people in the production and delivery of food to local businesses. Some of them are exclusively employed in the preparation of pre-packed sandwiches, which the company produces in bulk, using a production line system. The pre-packed sandwiches have been a big success because of their competitive price, good quality and reliable delivery. Initially, Hospitality Limited got custom by personal visits to local firms; since then the company has grown through word of mouth recommendation.

Carole and Lynsey are both very pleased with the way the company is heading and they feel that they now have a variety of expertise within the company. However, the company is not large enough to have individuals assigned to separate specialist areas, eg marketing. Carole's expertise is in human resources, finance and operations. Lynsey has a variety of knowledge but not a great deal of practical experience, although she is spending an increasing amount of time in materials management. An office junior has also been recruited to handle the increasing paperwork—he is well acquainted with information technology—having completed college courses, which included training in word processing, spreadsheets and databases.

### **Options for the Future**

Hospitality Limited has been very successful and Carole and Lynsey have considered ways to expand the company. They have looked at the following options.

- 1 Set up a marketing department to attract new customers. This would involve the recruitment of Michael Carr, who had been working in the marketing section of a major food-processing factory. Michael has experience in marketing and some experience of batch and flow production from the food processing factory where he previously worked.
- 2 Diversify into catering for one-off private events, which would involve the recruitment and management of additional part-time and casual staff.
- 3 Purchase new premises and up-to-date equipment with a large shop front, situated in the outskirts of Edinburgh.

Carole and Lynsey have decided to choose Option 1.

**Questions**

1. Using the elements of the marketing mix (the 4 Ps), explain the factors which Michael might consider to form the basis of his new marketing drive. **8**
  
2. “Carole’s expertise is in human resources . . .” Compare the method of recruitment which might be used for recruiting Michael as Marketing Manager with the method for recruiting the office junior. **4**
  
3. Explain how each of the 3 types of production method—job, batch and flow—apply to Hospitality Limited. **3**
  
4. Decision making in business involves the taking of risks.  
Evaluate the effectiveness of the decision taken by Hospitality Ltd to choose Option 1. Your answer should make reference to the other 2 options. **6**
  
5. Carole’s expertise lies in Finance as well as Human Resources. She has responsibility for compiling such accounting statements as the **profit and loss account** and **cash flow**. Write a brief description of the main purpose of **each** of these accounting statements. **4**

**(25 marks)**

[END OF SECTION ONE]

## SECTION TWO

## Answer 2 questions (50 marks)

1. (a) Distinguish between
- primary and secondary information,
  - qualitative and quantitative information,
  - internal and external sources of information. 9
- (b) Describe 4 software packages or electronic services and, for each one, describe how it might be used effectively in a business situation. 12
- (c) Explain the main uses of information to a business organisation. 4
- (25)**
2. (a) Jane has decided to set up in business—she wants to open a vegetarian cafe which would appeal mainly to teenagers. She now wishes to turn her ideas into action. Describe briefly the information Jane needs to know, under the following headings:
- the market and competition;
  - financial forecasts. 6
- (b) Explain the differences between a sole trader and a partnership, with particular reference to ownership, decision-making, funding, risk, profits and lifespan of the business. 5
- (c) What are the differences between hierarchical and flat organisational structures (the use of diagrams would be helpful)? What are the advantages and disadvantages? Give an example of each type of structure. 9
- (d) A charity has different aims and objectives from other organisations. Describe what the main aims/objectives of charities are, using examples if appropriate. 5
- (25)**

3. More people are now going to the cinema. Your Company—a leisure and entertainment organisation—is keen to develop a multi-screen complex with restaurant in the city centre.
- (a) Explain what sources of finance or assistance may be available to your Company. **10**
- (b) Explain the market research techniques which your Company could use in order to find out the views of customers regarding the proposed development. Explain possible problems of using these methods. **10**
- (c) What objectives might your Company have? **5**
- (25)**
4. The Production Manager in a large public limited company is very concerned that the quality control process is not working efficiently. Large numbers of products are being rejected and the rate of production has slowed down in recent weeks. There is also some concern that the company has a cash flow problem, due to creditors not paying on time.
- (a) Recommend a system which could be introduced by the Production Manager to improve quality control. **5**
- (b) Explain what is meant by “a cash flow problem”. **2**
- (c) Explain suitable methods of improving “cash flow”. **8**
- (d) Ratio analysis is widely used to compare the published financial information of different companies and of a particular company from one year to another. Identify some of the ratios used to do this and explain the advantages and disadvantages of using such a method of comparison. **10**
- (25)**

*Marks*

5. “A stakeholder is a person or group of people who have an ‘interest’ in a business or an organisation and in the way in which it is run/managed.”
- (a) Choose a publicly funded organisation. Identify 5 types of stakeholder and what their “interest” might be in this organisation. **10**
- (b) Describe the main aims/objectives of organisations in the public sector. **5**
- (c) In terms of business organisation, what are the main differences between formal and informal structures? **6**
- (d) Businesses are often organised into functional areas (eg Marketing, Operations, Finance, Human Resources). Explain the links between the Marketing and the Operations function. **4**
- (25)**

*[END OF SECTION TWO]*

*[END OF QUESTION PAPER]*





**[C010/SQP048]**

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Intermediate 2  
Business Management  
Specimen Marking Instructions

NATIONAL  
QUALIFICATIONS

## Intermediate 2 Business Management

### SECTION ONE

#### Suggested Solutions

- 1 Explanation of the 4 Ps and how each element affects Hospitality Limited or examples from current business activity:

##### Product

- Pre-packed sandwiches — delivered to local businesses as well as buffet style lunches and evening meals for city centre businesses (future produce — private events like dinner parties, weddings, etc). May also provide a service to employers by delivering sandwiches for lunch.

##### Price

- Competitive enough that employees of local businesses will buy the pre-packed sandwiches rather than go out to fast food outlets in the city centre.

##### Place

- Distribution of the pre-packed sandwiches is at the point-of-sale, ie to customers in businesses, who need the product in a very limited time — their lunch hour. Buffet lunches, etc, are also distributed in others premises.

##### Promotion

- Currently they promote by visits and rely on word of mouth; they have no other ways of making themselves known. Michael may want to change this, eg try advertising. **(8)**

- 2 Explanation of recruitment and selection function of human resource management and how it might affect Carole's recruitment of Marketing Manager and of office junior:

##### Recruitment and selection

- internal and external sources of recruitment (eg Jobcentre/advertisement in local paper, recruitment agency, on radio/TV or the Internet);
- Marketing Manager — specialist papers, national newspapers;
- office junior — local newspapers, careers service, contact local schools/colleges; recruitment from within the organisation;
- methods of selection (eg application form, interview by Carole or Lynsey, setting some kind of practical test — eg for office juniors — a word processing test, taking telephone messages and passing them on to members of staff); mention of reading references, looking at application forms and CVs; methods of carrying out interviews — eg for Marketing Manager — by individual/panel interviews; methods used for conducting interviews. **(4)**

- 3 Job production
- one-off jobs/contracts for specific job — unique
  - eg private functions

Batch production

- large/small stack of products
- eg buffet style lunches and evening meals

Flow production

- assembly-line production — very many homogenous items
- eg pre-packed sandwich making.

(3)

- 4 Option 1 growth, higher profits, larger market share, wider customer base, increased employment — all of these may be used to judge success. This will be dependent upon Michael's success in attracting new customers. The cost of this option is his salary and the increased marketing budget.

Candidates should also make reference to the other options — ie use the costs of options 2 + 3 to argue in favour of Option 1.

An alternative approach would be to list the benefits of one or both of the other options. Either approach could attract full marks.

(6)

- 5 Profit and loss account
- to show profit (excess of income over expenditure)
  - shows payments of expenses
  - shows losses.

Cash flow

- shows, on a monthly basis, how much cash the organisation has — shows what money came in and what money went out during the period
- used to inform decision-making.

(4)

Credit should be given where alternative valid points are put forward.

**(25 marks)**

## SECTION TWO: EXTENDED RESPONSE

### SUGGESTED SOLUTIONS

1 (a) Primary

- gathered and processed for a particular purpose, eg a questionnaire designed to find out what a store's customers consider important when buying perfume
- mainly collected through observation, questionnaires, interviews.

Secondary

- gathered for one purpose but re-used for another, eg when the store considers which brands of perfume to stock in the coming year, management will be interested in an article published about the 10 best known fragrances
- may be used by a variety of people for a number of purposes, eg the final accounts of a company may be of interest to rival companies/investors.

Qualitative

- is descriptive and involves value judgements or opinions.

Quantitative

- information which is definable, can be explicitly measured and is normally expressed in figures.

Internal

- data taken from an organisation's internal records and related specifically to users within the business.

External

- information from outside an organisation's own structure and systems. (9)

(b) Software:

- database — for keeping records, eg personnel records, stock lists
- spreadsheets — for accounting statements, payroll, etc
- word processing — for efficient and effective document presentation
- desktop publishing — for professional appearance for advertising flyers, etc
- electronic mail — for communicating with other businesses
- Internet — accessing information about other businesses. (12)

(c) Uses of information:

- decision making
- maintaining records
- communications
- monitoring and controlling
- (examples of above). (4)

**(25 marks)**

- 2 (a) Jane needs to know
- the market and competition — results of any research, indication of size of market and potential growth, who customers might be and what methods of promotion or advertising might be used; strengths of competitors;
  - financial forecasts — profit estimates based on estimates of sales and costs showing break-even point; cash flow estimates (difference between cash in and cash out on a monthly basis).
- (6)

(b)	Sole Trader	Partnership	
Ownership	one owner	2 — 20 partners	
Management decisions	owner	partners	
Funding	owner	partners as per agreement	
Risk	owner — unlimited liability	partners — unlimited liability	
Profits	owner takes all	depending on agreement	
Lifespan	until death or demise of owner	can be dissolved according to terms of partnership agreement	(5)

(c) (credit correct diagrams, showing hierarchical and flat structures).

Differences between hierarchical and flat structures:

- levels of management
- lines of communication
- levels of responsibility
- levels of authority.

More traditional organisations/businesses have a hierarchical structure and more modern firms have a flatter structure.

Benefits of flatter structure (disadvantages of tall structure):

- improved communications within the business
- greater responsibility for employees — helps motivation
- can react more quickly to changing situations
- improved working relationships.

Credit reference to span of control/lines of authority, etc.

Examples:

**Hierarchical**

Army  
Hospital  
Police  
Government  
Civil Service

**Flat**

Electronics company  
Charity organisation  
Employment Agency  
Farm  
(examples of particular companies could be given)

(9)

- (d) Aims of charities:
- help people
  - maximise collections of cash
  - offer a service to the community
  - recruit volunteer helpers
  - open more branches/charity shops
  - widen the scope of assistance.

Examples: British Red Cross, Comic Relief

(5)

(25 marks)

- 3 (a) Sources of finance/assistance:
- internal/external
  - personal savings/take on partner
  - re-invest profits
  - loans — bank, family, friends
  - Local council — grants and regulations
  - Central government — start up loans, especially in areas of high unemployment
  - Enterprise zones
  - Assisted Areas
  - Local Enterprise Companies (LECs)
  - Regional Enterprise Grants (REGs)
  - Regional Selective Assistance (RSAs)
  - EU incentives

(10)

- (b) Market research techniques
- surveys — questionnaires, interviews, consumer panels
  - observations — recording, watching, auditing
  - experimental — sampling

Problems — telephone surveys unreliable, people not returning questionnaires, sample must be truly representative, interviewers must be properly trained.

Personal interview of representative sample is best but very expensive.

(10)

- (c) Company Objectives:
- maximise profit
  - growth
  - survival
  - provide service
  - increase market share
  - improve conditions
  - improve efficiency
  - lead the field
  - improve quality

(5)

(25 marks)

- 4 (a) Quality Control
- traditionally, quality inspectors
  - now, everyone involved in process of quality control
  - Japanese influence on management techniques
  - quality essential part of being competitive
  - empowerment
  - teamwork
  - Quality Circles. (5)

- (b) Cash flow problem
- timing of flows of cash into and out of a firm is crucial, not the total amount of cash generated
  - companies don't go bust because they lose money, they go bust because they run out of money
  - if companies stay cash-rich they are more likely to be successful. (2)

- (c) Methods of improving cash flow:
- raising extra capital — re-investing profits, issuing shares
  - taking out loans
  - reducing cash operating cycle — shortening time between purchase of raw materials and sale of finished goods, so that cash is not tied up for too long
  - sale and lease back — selling fixed assets to a leasing company to raise money and then leasing them back
  - delaying payment — taking longer to pay bills
  - spreading purchase costs — HP or leasing
  - tight stock control — ensure capital is not tied up in too much stock
  - tight credit control — making sure that debtors pay their bills by prompt invoicing and reminders
  - checking customers credit worthiness before goods are sent out. (8)

- (d) Ratio analysis
- Profit and Loss account
- expenses: sales
  - expenses: gross profit
  - expenses: net profit
  - profit margin (net profit: sales)
- } identifies trends of increasing/decreasing costs
- Balance Sheet
- liquidity ratios
  - solvency ratios
  - return on capital employed (ROCE) — gives an idea of how successful the business has been in spending its money on equipment and factories.
- (credit relevant ratios and their uses).

Difficulties of relying on ratio analysis for comparisons:

- information is historical
- like must be compared with like
- may not take into account problem of external factors, eg inflation
- may not reflect implications of new products
- may not reflect implications of new policies
- takes no account of unseen factors, eg morale of workforce. (10)

**(25 marks)**

- 5 (a) Stakeholders (publicly funded organisations)
- managers — have an interest in the running of the business
  - inland revenue — has an interest in the activities of the business to make sure tax rules are applied
  - employees — have an interest in the activity of the business which pays their wages
  - shareholders — people who have invested money in the business have an interest in ensuring that the business performs well and increases the value of their investment
  - suppliers — If we supply goods to this business, will we be paid? Does the business have a good reputation?
  - customers — Will this firm supply my needs and what kind of after-sales service will I get? — reputation
  - local government — are they going to permit the business to locate in their area?
  - community — the area needs jobs. (10)
- (b) Aims/objectives of business  
public sector/services
- funded by government (central and local)
  - provides services centrally — national health, police, defence
  - provides services locally — education, libraries, roads. (5)
- (c) Formal/informal structures  
formal
- determines who is officially accountable to whom and for what (shown on an organisation chart) — decided by the company
  - specifies who has authority to take and implement decisions
  - as businesses expand there is an increasing number of rules, regulations and procedures — to achieve conformity by work-force; personnel matters are more predictable
  - the classic way to show the structure is by using an **organisation chart** showing links between departments and lines of authority and responsibility
- informal
- arise from interaction of people
  - flexible, spontaneous
  - set up by employees themselves — not imposed by management
- Credit appropriate correct diagrams. (6)
- (d) marketing and operations
- liaison regarding a new product which will be launched working together on the marketing mix
  - ensuring the **right product** is in the right place, using the most suitable methods of promotion;
  - marketing department will work closely with the operations/production department to ensure the product has the right features — look good, work well for the purpose intended. (4)

(25 marks)

[END OF MARKING INSTRUCTIONS]