

[C010/SQP005]

---

Higher  
Business  
Management  
Specimen Question Paper

Time: 2 hours 30 minutes

NATIONAL  
QUALIFICATIONS

100 marks are allocated to this paper.

50 marks for Section ONE and

50 marks for Section TWO

## SECTION ONE: CASE STUDY/INTERPRETATION

[This Section should take you no more than 1 hour 15 minutes.]

### THE DUKE OF CUMBERLAND

Read through the whole case study, then answer the questions which follow.

#### BACKGROUND

Strathmuir is in the Central Lowlands of Scotland—a popular tourist resort, and attractive to water sports enthusiasts, hillwalkers and anglers; there are over 70 shops in the centre mainly catering for the tourist trade and 75 per cent of the working population are employed in the service sector. The busy main A848 road passes through it and it is notorious for traffic hold-ups.

Terry York grew up in south-east England; he worked briefly in the tourist trade specialising in arranging UK tours for overseas visitors. When his parents died he inherited their successful business, but due to recession, the business failed. He sold it and used the capital to buy another business—the Rob Roy Hotel in Strathmuir. The hotel was on the main street—a 3-storey building with 20 bedrooms, a restaurant and a public lounge bar—in an ideal location for attracting passing trade; it thrived on catering for family holidays, passing sales representatives and local functions like weddings and funerals. The room charge (tariff) was £35 per night (bed, breakfast and evening meal)—the same as the 5 other hotels in Strathmuir, except the Highland Hotel (which charged £50, but had a 5-star rating). The Rob Roy's restaurant had an excellent reputation for miles around, with superb French cuisine prepared by Marcel, the hotel chef. The lounge bar was always full of locals.

#### TERRY'S FIRST FOUR YEARS

- The hotel had not been redecorated in 20 years, but Terry thought this gave it an old-world charm, in particular to American guests.
- However, he changed the name to "The Duke of Cumberland".
- He used his old contacts in the travel business to secure advance bookings and soon established such a strong grip on the "American" segment of the market that other local hotels had no part of it.
- Terry increased the room tariff to £50, but was just as busy; a further 10 bedrooms were added on and the restaurant doubled in size; a loan was taken out to finance the extension.
- Terry redecorated using American furnishings—a portrait of George Washington in the reception hall; stars-and-stripes flag in the restaurant, etc.
- In years 3 and 4 tourist bookings increased due to weak sterling exchange rates—room tariff was increased to £70 per night—£20 more expensive than the Highland hotel; sales reps no longer stayed there.
- Terry no longer catered for local events like weddings; he put up a sign in the reception area declaring "No Hillwalkers"; the bar was restricted to residents only.
- Terry did not believe it was necessary for him to organise anything for his hotel guests to do around Strathmuir—it was enough to provide their accommodation and food.
- He fired Marcel, the hotel chef, because he refused to change from French cuisine to traditional American fare like Chicken Maryland and blueberry pie; Marcel opened a small French restaurant in the High Street which quickly gained an excellent reputation and became popular with local people.

#### CANDIDATE'S NOTES

***TERRY'S FIRST FOUR YEARS (CONTD.)***

- Terry took personal drawings from the business of £60,000 in Year 3; in Year 4 he bought himself a Porsche, using the hotel business account.
- He spent more and more time with the local land-owning colleagues with whom he had become quite friendly.
- He looked forward to Year 5 with confidence.

***YEARS 5 AND 6***

- A magnificent baronial castle on the outskirts of Strathmuir had been bought and developed to a very high standard by a national hotel group—the Bruce Palace had 80 rooms, a swimming pool and a 9-hole golf course—and a ghost!
- Terry's London agents began to send coach parties to the Bruce Palace.
- Bookings fell by 30 per cent; Terry dropped his tariff to £50; loan repayments for the extension were expensive due to high interest rates.
- Rising oil prices caused a major decline in the number of American tourists to the UK—the Duke of Cumberland was only operating at 40 per cent during the summer months.
- The "No Hillwalkers" sign came down, but failed to attract substantial trade; a recession reduced the number of travelling sales reps.
- Terry had to make 12 of his staff redundant; the Bruce Palace established a hold in the market for business conferences and corporate entertainment while continuing to attract visitors from all over the world.

***THE FUTURE***

Terry believes he has excellent premises, ideally located in a popular part of Scotland and he cannot understand why things have gone so badly recently. He is, however, extremely concerned about the future of his business. A statement prepared by his accountant shows the hotel's cash flow figures over the past 6 years and is causing concern (see Appendix B). He is alarmed by reports in a national newspaper that the council is considering building a bypass to take motor vehicles around Strathmuir in order to avoid the traffic hold-ups during peak periods.

**CANDIDATE'S  
NOTES**

**Appendix A**

**The Duke of Cumberland—Occupancy Rates  
(Percentage of Rooms Occupied)**

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Year 6</i>
January–April	25%	33%	43%	59%	33%	20%
May–August	75%	85%	95%	98%	66%	44%
Sept–Dec	50%	62%	75%	80%	51%	30%

**Appendix B**

**The Duke of Cumberland Hotel—Cash Flow Statement  
(All figures are in £000s)**

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Year 6</i>
Opening Bank Balance	10	8	38	66	53	(7)
<b>INCOME:</b>						
Room Bookings	118	219	440	560	275	185
Bar Sales	60	70	70	50	40	30
Restaurant	70	70	80	50	45	35
Other	5	6	8	7	5	3
<b>Total</b>	<b>263</b>	<b>373</b>	<b>636</b>	<b>733</b>	<b>418</b>	<b>246</b>
<b>less EXPENDITURE:</b>						
Wages	145	175	225	290	190	120
Loan Repayments	0	0	100	110	115	120
Furnishings	10	10	50	50	5	0
Restaurant and Bar	65	70	75	60	45	35
Overheads	20	40	60	100	50	40
T. York—Drawings	15	40	60	70	20	0
<b>Total</b>	<b>255</b>	<b>335</b>	<b>570</b>	<b>680</b>	<b>425</b>	<b>315</b>
Closing Bank Balance	8	38	66	53	(7)	(69)

## QUESTIONS

1. List the decisions taken by Terry between Year 1 and Year 4 under the following categories:  
(a) strategic decisions;  
(b) tactical decisions. 6
  
  2. With reference to market segmentation and the marketing mix, explain the different levels of tariff charged by the hotel during the period of Terry's ownership. 10
  
  3. Identify and analyse the factors contributing to the decline of Terry York's business. Your answer should address the issues of  
Marketing  
Finance  
External factors  
Other contributing factors.  
Credit will be given to answers which relate Terry's experience to current examples drawn from the UK business environment. 24
  
  4. Terry recruited 11 extra staff for the hotel in Year 3. This is often a matter for Human Resource Management (HRM) departments in organisations. What advice would you have given Terry to ensure that he dealt properly with the recruitment and selection of these staff at that time? 10
- (50)**

## SECTION TWO: EXTENDED RESPONSE

## Answer 2 questions

1. Traditionally organised structures have been hierarchical in nature, with various layers of management. Modern management theory suggests that the number of layers should be reduced.
- (a) Discuss the possible advantages and disadvantages of delayering. 10
- (b) How does delayering affect the role and responsibilities of management in an organisation? 15  
*Diagrams may be useful in illustrating your answers.* (25)
2. (a) What is involved in the efficient management of stocks? (*Marks will be awarded for the use of appropriate diagrams.*) 12
- (b) What are the advantages and disadvantages of the **just in time** system of supply and production? 8
- (c) How should a firm which is planning the take-over of another react to the discovery that its proposed target is carrying an excessively large volume of stock? 5  
(25)
3. "If it isn't broken, don't mend it." This view is sometimes common to both employer and employee.
- (a) What are the reasons for change in an organisation? 12
- (b) Why can change lead to potential problems within an organisation? What impact can change have in an organisation? 13  
Give examples to illustrate your answers. (25)
4. (a) Explain clearly the meaning of the term **information**, and describe the main types of information which may be available to a firm. 8
- (b) How would you assess the **value** of the types of information that you have described in 4(a)? 10
- (c) Why has the application of information technology become so important to business success? 7  
(25)
5. (a) What is the purpose of preparing a cash flow forecast? 3
- (b) Identify the main methods of improving cash flow. 7
- (c) Discuss the advantages and disadvantages of using ratio analysis as a means of assessing company performance. Give examples. 15  
(25)

[END OF QUESTION PAPER]

[C010/SQP005]

---

Higher  
Business  
Management  
Specimen Marking Instructions

NATIONAL  
QUALIFICATIONS

## HIGHER BUSINESS MANAGEMENT – SUGGESTED SOLUTIONS

### SECTION ONE: CASE STUDY/ INTERPRETATION

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

1 [one mark for each point - other, valid solutions acceptable; maximum 3 marks for each of strategic and tactical]

a Strategic decisions

- to identify and target the top end of the tourist market in Scotland by providing accommodation for foreign visitors, especially affluent Americans;
- to raise the image of the hotel in order to cater for a specific market segment.

b Tactical decisions

- to use existing personal contacts in London travel agencies to secure advance bookings;
- to match demand by increasing supply capability through extending the premises;
- to finance the extension by securing loans;
- to set the hotel tariff £10 higher than the nearest rival in the town to make the 'Duke' exclusive (skimming);
- to reject local business - weddings, funerals;
- to decorate the premises in 'American' style;
- to change the name of the hotel;
- to put up signs rejecting specific types of business (hillwalkers);
- to make the restaurant and bar exclusive to residents.

(6)

2 Terry York started trading at £35 for dinner, bed and breakfast. This catered for the hotel's market prior to Year 1 for family holidays, sales reps, restaurant activities, bar sales, local business such as weddings and funerals, and general passing trade.

He raised prices in Year 2 to £50 as a consequence of demand outstripping supply capability. Raised again in Year 4 - to £70 - a price set deliberately to make it the most expensive hotel in town but also to reflect the high demand and possibly the requirement to meet expensive loan repayments secured for the extension. The market segment Terry York targeted was the top end of the tourist trade (that is, high price, high profit margins, exclusive, etc). This mainly comprised foreign visitors on tour by coach in Scotland.

Terry dropped the prices in Year 5 as a consequence of falling demand for accommodation (the occupancy rates in Appendix A show this) and in an attempt to regain some of his previous market for example, sales reps, family and local business, etc.

This illustrates the marketing mix in several ways, for example, in changing the name and decor of the hotel, increasing its capacity and putting up prices, Terry changed part of the marketing mix for the hotel.

(10)

### 3 a The overall situation

The Duke of Cumberland is experiencing a rapid contraction in demand for the service that it provides. The market segment, that Terry York targeted and geared his business towards, has declined due to external factors. He also faces strong competition within the area. He has lost much of his previous market and faces serious cash flow problems.

#### b Contributing factors (areas to develop)

##### *Marketing*

- York took his source of supply for granted (his London agents) and became complacent.
- He ignored the possibility of competition (the Bruce Palace entered the same market segment – he should have foreseen this threat since the development could not have been done overnight).
- He over-specialised and ‘put all his eggs in one basket’ – the pre-arranged American coach tours. When this market contracted he had no secure hold in any other since everything was geared to the American market (menu, furnishings, tariff, etc).
- For some reason, he ignored the business opportunities provided by visitors from other nations (for example, Japan and Germany) who would also have been at the top quality end of this market. The Bruce Palace did not overlook this opportunity.
- He rejected guaranteed local business – from weddings, funerals, hillwalkers, sales reps, and bar meals, during summer periods. Consequently, he was unable to attract back this custom when the top end of the market declined in 1990. Customer loyalties had been transferred to other hotels, bars and restaurants.
- He treated the local customers as ‘second class citizens’. He rejected local business because it did not provide the same revenue opportunities (for example, weddings, funerals, etc) and closed the bar and restaurant to local custom (that is, residents only).
- He alienated the Hotel from locals by placing aggressive signs in the window (‘No Hillwalkers’) and his changing of the name of the hotel from Rob Roy to Duke of Cumberland might have been insensitive to local feelings.
- Perhaps he did not properly target his market segment – would American guests really want to stay at a hotel with ‘American’ furnishings and a traditional ‘Uncle Sam’ menu? Evidently not, since they enjoyed the ‘Scottish’ nature of the Bruce Palace.
- He missed opportunities to secure and develop the market (for example, not organising activities for his guests when clearly this would have been popular, profitable and possible, since he had the local contacts to enable this).

##### *Finance*

- Terry York chose to finance the major extension to the premises by securing loans based on predictions of future revenue. This was perhaps satisfactory until his market contracted and revenue began to fall. The high gearing of his business, together with high interest rates, meant those loan repayments alone accounted for almost 40 per cent of his expenditure in Year 5. He subsequently faces cash flow difficulties and is now over-trading as the substantial overdraft at the end of Year 5 (£69,000) shows. There is no evidence that the trend in the hotel’s cash flow will be altered over the next 2 years.
- York could have financed his extension from retained earnings rather than by committing himself to heavy debt. The cash flow shows that the finance was available, but York took large personal drawings (buying an expensive car for personal use from the hotel’s working capital)
- Were the tariff increases necessary given the nature of the market? The ‘Duke’ appears to have priced itself out of the market in Strathmuir.

- He took future revenue for granted and did nothing to ensure that his London agents remained loyal.
- He underestimated the contribution made to revenue by both the restaurant and the bar. The cash flow shows a marked fall in profitability here.

*External factors*

- the recession and contraction of the tertiary sector
- rising oil prices – increased air fares
- weak dollar affected tourism

(Students might expand on these areas, showing wider knowledge of external factors)

*Other factors*

- Terry bought and managed a hotel business with no previous experience.
- He was insensitive to the value and needs of a high quality chef. This person was never going to be happy cooking blueberry pie every night. Furthermore, when he left to start up his own restaurant, he took a lot of existing custom from the 'Duke'.

(24)

4 Advice to Terry would include:

- He must ensure that he carries out a job analysis (a study of what the job entails), a job description of the duties of the post) and a person specification (a description of the personal attributes of the person required for the job).
- These 3 aspects should relate to the 'human resource plan' for the hotel that covers the anticipated changes in demand and the need for extra staff.
- In employing an extra 11 staff, he could use both internal and external means of recruitment. Internal recruitment involves recruitment from existing employees while external recruitment involves recruiting candidates from outside the company. Given that this was extra staff, external sources are more likely.

(10)

## SECTION TWO: EXTENDED RESPONSE

- 1 a Note: max 6 marks for each advantage/disadvantage sub total
- definition of delayering: reduction in number of levels of management within an organisation

Advantages – reduction in levels of management can mean:

- improved communication
- decision making – more efficient
- company more responsive to market needs
- clearer lines of responsibility for new employees
- opportunity for delegation of responsibility
- lower costs
- empowerment

Disadvantages

- wider span of control
- extra pressure on line managers
- resistance from those supporting more traditional management style
- time taken to implement change
- adaptation to change
- implication for promotion structure/opportunity for progression limited
- employment issues/job loss possibility

Credit use of example to illustrate point (10)

- b Role and responsibilities of management–Credit use of examples and expansion of points.

- Flatter structure – argue either way
- possibly easier since fewer levels of management
- easier to set up meeting
- wider span of control: span of control may change emphasis, eg role in planning and co-ordinating may become more important
- co-ordinating more important
- few levels to communicate through
- basic role unchanged
- chain of command may change emphasis, eg less direct contact with staff

Diagram – organisation chart – many levels reduced to few (1 mark for each diagram)

credit real life examples (15)  
(25)

2. (a) (Marks may be awarded for the use of appropriate diagrams)

Production falls into 3 categories:

- materials and components
- work in progress
- finished goods

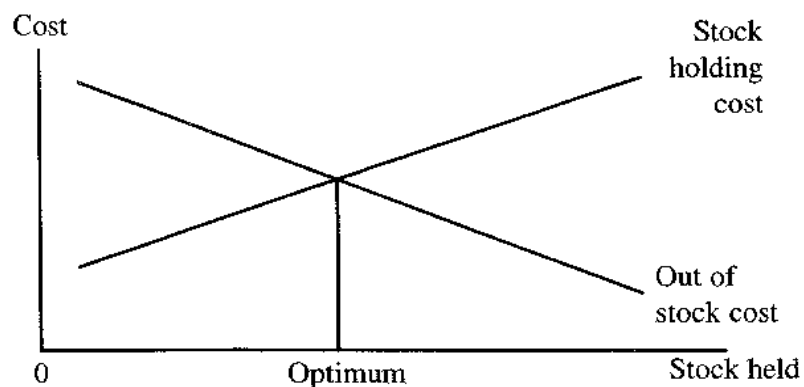
The object of materials is to prevent disruption of production by supply failures.

The object of finished goods is to prevent loss of sales through availability.

Stock holding incurs costs

- the opportunity cost of the idle money tied up in stock
- storage costs
- deterioration costs
- maintenance
- security
- insurance

These costs must be balanced against the potential loss of revenue (out of stock costs).

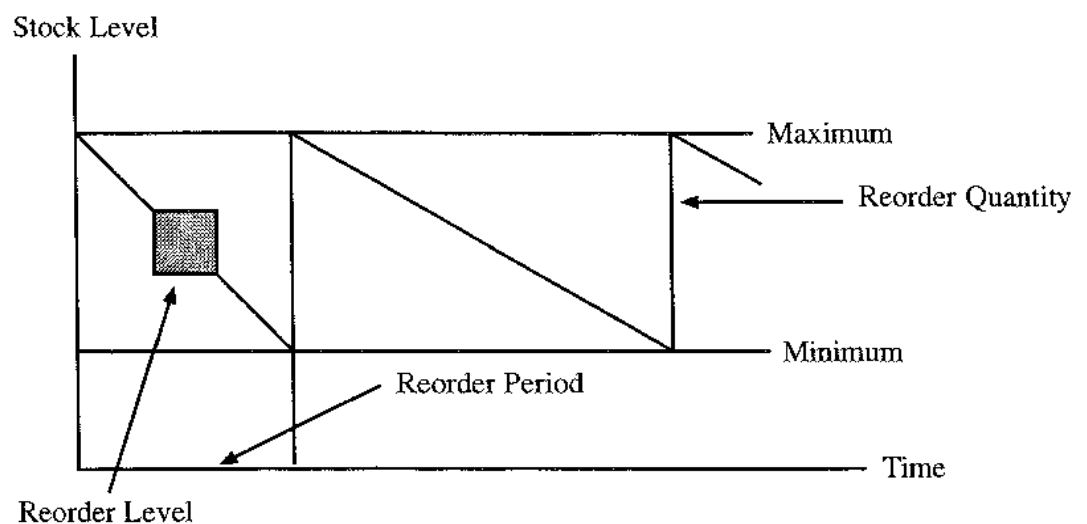


This diagram should be marked as follows:

- 1 mark if **both** axes are correctly labelled
- 1 mark for each function if correctly labelled
- 1 mark for correctly identifying the optimum

this gives a maximum of 4 marks for an all correct diagram

- however, since inflow and outflow is continuous, exact optimum cannot be maintained
- therefore manager **must** determine acceptable maximum and minimum
- he must ascertain re-order period
- and thus calculate re-order quantity



The diagram should be marked as follows:

1 mark for both axes correctly labelled

1 mark for both max and min correctly labelled

1 mark for each of the 3 ingredients correctly identified

making a maximum of 5 marks for the all correct diagram.

- in practice stock flow will not follow this smooth pattern
  - the manager must attempt to emulate it as closely as possible
  - when JIT is in use the manager's art is synchronisation
  - the manager also needs to ensure good secure storage facilities/systems/conditions
    - to avoid damage/deterioration/theft
  - and good record systems – as a basis for future decisions
- (12)

b Advantages

- stockholding cost minimised
- able to use elsewhere, money which might have been tied up in stocks
- elimination of waste
  - such as material deteriorating or
  - components becoming obsolete
- reduced vulnerability to changes in fashion
- less clutter
- improved efficiency

Disadvantages

- danger of disrupted production due to non arrival of supplies
  - danger of lost sales
  - no chance of quality control on arrival of supplies
  - "exporting" stock holding problems to your suppliers
  - increased volume of traffic (many small loads instead of a few large ones)
  - possible increase in transport costs
  - increased chance of transport failure
  - big firms transferring expense to small ones
- (8)

c

- acid test ratio
  - this excludes stock
  - the predator may discover a need to inject extra cash/liquid assets
  - how saleable is the stock?
  - it should be valued at cost or net disposable value if lower
  - is there a problem of deterioration?
    - or fashion change?
    - or seasonability?
  - has the value of the target been artificially inflated by excessive stock value?
  - how compatible is the stock with the predator's own products?
  - scope to release cash by running down stock post take-over
- (5)

(25)

- 3 a Allocate maximum 3 marks to each reason given
- competition – loss of market share
  - losing profit
  - technology – new production machinery introduced
  - internal/external dimension
  - economic factors – recession, changes in demand
  - demographic changes
  - political change – local/central
  - changes in technology
  - change in personnel – new management
  - change in management thinking – structure
  - improved efficiency – cost effectiveness
  - change in consumer tastes and preferences/fashions
- (12)

- b
- impact of changes in demand, demographic trends, diversification, competition, regional policies, structure of labour market, local and central government, privatisation, EU, environment, technology
  - issue of change – change is expensive
  - fear – change in working practices
  - parochial self-interest – individual concerned with own needs
  - security – job loss
  - status – rationalisation/restructure
  - combination of factors creates atmosphere of suspicion
  - staff loss of benefits eg car, office perks (needs example)
  - fear of unknown – new position, new colleagues
  - involvement in decision making process – before, during, after (note development marks available)
  - appropriate training
  - constant open communication
  - review of practices at agreed intervals
  - sell change/benefits to workforce
  - phased introduction linked
  - joint working groups
  - detailed planning
  - meaningful review process
- (13)

(25)

- 4 a **Information:**
- definition – data which has been processed into a form facilitating decisions
  - primary – information researched directly by the firm for its own purposes
  - secondary – this is information derived from published sources
  - internal – available from the firm's own records
  - external – source outside the firm (eg government, quangos, other firms etc)

**Note:**

**A discussion of sources, or of specific items of information which may be obtained under the above categories, would not normally be considered correct, since the question asks about types of information, a term specifically explained in the syllabus section. However, if the general type has been stated, it may well be valid to score good examples as development points. (8)**

- b **Primary information**
- reliability
  - accuracy
  - timeliness
  - completeness
  - appropriateness
  - availability
  - cost
  - objectivity
  - conciseness
  - value depends on purpose for which information is used – eg monitoring and controlling, decision making

**Secondary information**

- reliability
- age of data
- speed of change of subject matter
- purpose of original collector
- bias/was original collector trying to prove a point?
- completeness of data for your purpose
- no guarantee of standards applied in data collection
- is it divided into inappropriate subgroups?
- difficult to combine material from 2 or more sources
- accessible to competitors
- no prospect of follow up for clarification/confirmation

**All Information**

- cost in relation to benefit
- time taken to access

(10)

c

- speed/time is money
- market orientation has replaced product orientation
- this means firms require market information in order to compete
- accuracy
- consistent quality/TQM
- labour saving
- technology is cheaper than labour
- technology is more predictable than/reliable than labour
- but labour is more versatile than technology, eg IBM Greenock replaced robots with workers in 1994
- facilitation of communication
- facilitation of materials handling
- facilitation of administration
- facilitation of stock control
- facilitation of payment eg EFTPOS
- space saving

**Note**

**This is not the place for a detailed discussion of the benefits conferred by a single technology, for example word processing. Such a discussion might be awarded, perhaps, the “communication” mark, but in general only one additional development mark may be awarded.**

(7)

(25)

- 5 a Purpose of a cash flow forecast –
- cash is needed for the everyday running of an organisation – to buy materials, rent, wages and interest charges – if bills can't be paid the business will go bust
  - a business that does not pay its bills when agreed is likely to make cash flow problems for others
  - cash flow forecasts reduce the risk of going bust because they are planning for their needs and making decisions about whether they can afford to go ahead with projects

(3)

- b Methods of improving cash flow –
- raising extra capital – reinvesting profits, taking out loans, using owners' capital or issuing shares
  - reducing cash operating cycle – shortening the 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
  - reducing investment – reducing the amount spent on fixed assets such as new machines or new factories
  - delaying payment – taking longer to pay bills and using trade credit
  - spreading purchase costs – using bank loans, HP or leasing to spread the cost of payment in instalments
  - tight stock control – ensuring 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
  - debt factoring – selling debts to a factoring company to raise cash immediately (7)

- c Ratio analysis used
- to compare current year with previous years
  - to compare performance of organisation with similar organisation
  - to see why differences occur and how to improve in the future
  - as information for forecasting

Difficulties of relying on ratio analysis:

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

Examples of ratios:      1 mark for description  
    1 mark for formula

(15)

(25)

**[END OF MARKING INSTRUCTIONS]**

