

Question 1

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.

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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.

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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.

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(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)

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

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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.

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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.

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

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(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS

Question 2

SECTION B

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

Write your answers in the spaces provided.

Extract E

Hardy Punglia's designs are a cut above the rest

Fashion designer Hardy Punglia launched his own range of clothing in Huddersfield with one shop and just five designs. Three years later his collection exceeds over 100 designs. Hardy now plans to open another shop and is hoping to supply other retailers in Yorkshire. He also sells to a wider audience through the online fashion outlet ASOS.

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Cash flow forecast for the period January to March 2020

	January £	February £	March £
Cash inflows	2 000	3 600	8 000
Cash outflows	7 000	4 000	3 000
Net cash flow	(5 000)	(400)	5 000
Opening balance	2 000	(3 000)	(3 400)
Closing balance	(3 000)	(3 400)	1 600

(Source: adapted from © a Reach plc subsidiary 2018)

Extract F

Zara's successful formula for fast fashion

Zara is a Spanish clothing retailer with 650 stores in 50 countries. It has 12 factories in Spain and Portugal, which supply the majority of Zara's stores using a just in time (JIT) stock control system.

In Zara stores, customers can always find new products, but in limited supply. To create a sense of exclusivity, Zara constantly introduces new products in small quantities, which motivates customers to visit its shops more often. On average, customers in London visit a fashion store four times a year; Zara's customers visit 17 times.

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A Zara customer may think, 'If I don't buy this orange shirt now, it may not be there next time I visit.'

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Selected financial information for Zara 2016

	£m
Budgeted sales revenue	20 900
Actual sales revenue	23 310
Budgeted total costs	16 204
Actual total costs	18 226

(Source: adapted from © Inditex)

Extract G

Second ASOS fire damages stock worth £6m

In May 2017 a fire at ASOS's Berlin warehouse damaged two million products worth £6m. According to ASOS, 'All relevant safety measures were followed and the fire was contained'. After the fire, ASOS's scenario plan was put into operation and ASOS immediately started to fulfil orders from Germany through its Barnsley warehouse.

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In June 2014 ASOS's Barnsley site had been damaged by fire, destroying an estimated 20% of stock. In addition, this fire cost £30m in lost sales, which meant ASOS missed its £1bn sales target for 2014.

The fire in 2014 disrupted business for three days. In contrast, after the fire in the Berlin warehouse, the ASOS website serving Germany and the UK operated as normal. Following news of the Berlin fire, ASOS's share price dipped initially, but soon recovered.

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(Source: adapted from © InternetRetailing Media)

- 2 (a) Using the data in Extract E, explain **one** way Hardy Punglia could use his cash flow forecast.

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- (b) Using the data in Extract F, calculate the total profit variance for Zara in 2016. You are advised to show your working.

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(c) Assess the extent to which Zara’s use of just in time (JIT) may have contributed to its success.

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(d) Assess the usefulness of scenario planning to a business, such as ASOS.

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Zara is planning to open another 200 stores and is considering the best way to maintain the quality of its clothes. Zara is considering using either quality control or total quality management (TQM).

- (e) Evaluate these two options and recommend which **one** would be the best way for Zara to maintain the quality of its clothes.

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(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

(Total for Question 2 = 50 marks)

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

