



Rewarding Learning

ADVANCED  
General Certificate of Education  
January 2012

---

## Business Studies

Assessment Unit A2 1

*assessing*

Making Business Decisions

[AT211]

THURSDAY 26 JANUARY, MORNING

---



AT211

### TIME

2 hours.

### INSTRUCTIONS TO CANDIDATES

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

### INFORMATION FOR CANDIDATES

The total mark for this paper is 80.  
Quality of written communication will be assessed in Questions **5** and **6**.  
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

### ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question.

Study the information below and answer the questions that follow.

### TESCO plc (Tesco)

Tesco, the world's third-biggest retailer stated "... the global economy is recovering strongly and growth in emerging markets will help to prevent developed economies from falling back into recession."

As the UK's largest retailer, its mission or philosophy of "making things better for customers, simpler for staff and cheaper for Tesco" is extremely important particularly at this time when customers are struggling financially and competition is relatively strong. All staff are encouraged to suggest new ideas on how the organisation can achieve this mission.

The firm has launched 500 new products as part of its "Discount Brand at Tesco" initiative, so that customers can purchase within their budget without compromising on quality. This initiative has proved successful with approximately 30% of customers buying something from the "Discount Brand" product range every time they shop.

Tesco's ability to cut prices across the store is a direct result of its "Step Change programme" which focuses on reducing costs and improving efficiency. To date this programme has delivered £540 million worth of savings that have been reinvested in improving the shopping experience for customers. However, some would argue that many of these savings are at the expense of local suppliers who have seen their profit margins diminish as Tesco demand fresh produce at lower costs.

Tesco has increased its level of capital investment in energy-saving projects and this has reduced energy consumption by 8% despite its increase in sales. Investment in new self-service checkout technology has also cut costs and speeded up service for customers. Currently, almost 25% of UK customer transactions are through self-service checkouts. In addition, Tesco has introduced innovative technology that allows it to electronically check-in bread and milk deliveries at depots throughout the UK. This has eliminated a significant amount of paperwork and administration. Furthermore, by using double-decked trucks Tesco has saved approximately 12 million road miles resulting in greater efficiency and reduced distribution costs.

Tesco's grocery market share increased from 21.8% in 2008 to 22.2% in 2009 despite strong competition from rivals Asda and Sainsburys. Financial performance indicators are shown in **Table 1** below:

**Table 1: Financial Performance of Tesco plc in the UK.**

	2008	2009
Sales Revenue	£37.9 billion	£41.5 billion
Net Profit Margin	5.9%	6.2%
Gearing	52%	74%
ROCE	12.9%	13%
Investment in Fixed (Non-Current) Assets	£2.3 billion	£2.6 billion
Earnings Per Share	27.02p	28.92p

As a way of saying “thank you” to loyal customers, Tesco has, to date, invested £400 million in its “Clubcard” scheme. Furthermore, Tesco plans to create 11 000 additional jobs in the UK through opening new stores and expanding its financial services business. Tesco’s non-food market share increased from 8.5% in 2008 to 8.8% in 2009 and its continuing strategy to extend both clothing and electrical products is proving successful. The on-line catalogue, “Tesco Direct”, has also been very popular as customers seem to appreciate the extensive “value for money” range of products and the option to shop in-store or on-line.

The evidence suggests that Tesco is well placed to continue to grow both sales and market share in a highly competitive market.

*© Article adapted from www.tesco.com - Tesco's Annual Report and Financial Statements 2009 / © Business news - Reuters.co.uk*

Candidates must answer **all** questions.

- 1 With reference to Tesco explain what is meant by the term **gearing**. [4]
  
- 2 Analyse the position of Tesco using any **two** elements of the PESTEL analysis. [6]
  
- 3 Discuss **growth** as a business objective for Tesco. [15]
  
- 4 Evaluate Tesco's financial performance using the information provided in the case study. [15]
  
- 5 Evaluate the usefulness of published accounting information to any **four** stakeholder groups of Tesco. [20]
  
- 6 Evaluate the qualitative factors that may influence investment decisions made by a firm such as Tesco. [20]

---

**THIS IS THE END OF THE QUESTION PAPER**

---