

A



**A-level**

**BUSINESS**

**Paper 2 Business 2**

**7132/2**

**Insert**

**Source Material for answering  
Question 1 and 2.**

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## **Source material for Question 1.**

**Drake Hotels PLC towns 20 budget hotels in the UK. Each one is located in a different city. The industry is very competitive and Drake's managers all have an objective to help the business to be as efficient as possible.**

**Drake Hotels PLC's operating profit for the financial year 2019–20 was £18 million. Last month the company appointed a new Chief Executive, Mary Myers, to increase the profitability of the business. Mary was previously the Marketing Manager of an upmarket hotel chain.**

**Mary is already considering an investment proposal for a luxury hotel in Oxford. This hotel would target overseas visitors who might want to visit the city.**

**Drake Hotels has found a suitable building but needs to invest to develop it.**

## **APPENDIX A**

**Investment appraisal results for the proposed investment into a new hotel in Oxford (based on net inflows for first eight years).**

<b>Average rate of return</b>	<b>12% per year</b>
<b>Net Present Value</b>	<b>£25 million</b>

**Source: Chief Executive**

**[Turn over]**

## APPENDIX B

### Sensitivity analysis for the new Oxford hotel investment proposal

Two possible changes in the economy that might affect the investment appraisal results in Appendix A	Estimated probability of this change happening
The value of the pound against other currencies is 10% higher than originally forecasted.	20%
The average GDP growth in overseas countries is 1.5% higher than originally forecasted.	30%

Source: Chief Executive

**APPENDIX C****Selected financial data for Drake Hotels PLC**

	<b>£ million as at 1 May 2020</b>
<b>Current assets</b>	<b>15</b>
<b>Current liabilities</b>	<b>18</b>
<b>Total equity</b>	<b>170</b>
<b>Non-current liabilities</b>	<b>280</b>

**[Turn over]**

**APPENDIX D****Forecasted data for Drake Hotels PLC's  
new Oxford hotel investment proposal**

<b>Initial investment required</b>	<b>£20 million</b>
<b>Estimated income elasticity of demand</b>	<b>+2</b>
<b>Percentage of customers visiting from overseas</b>	<b>70%</b>
<b>Estimated cost of borrowing for this investment</b>	<b>8% per annum</b>

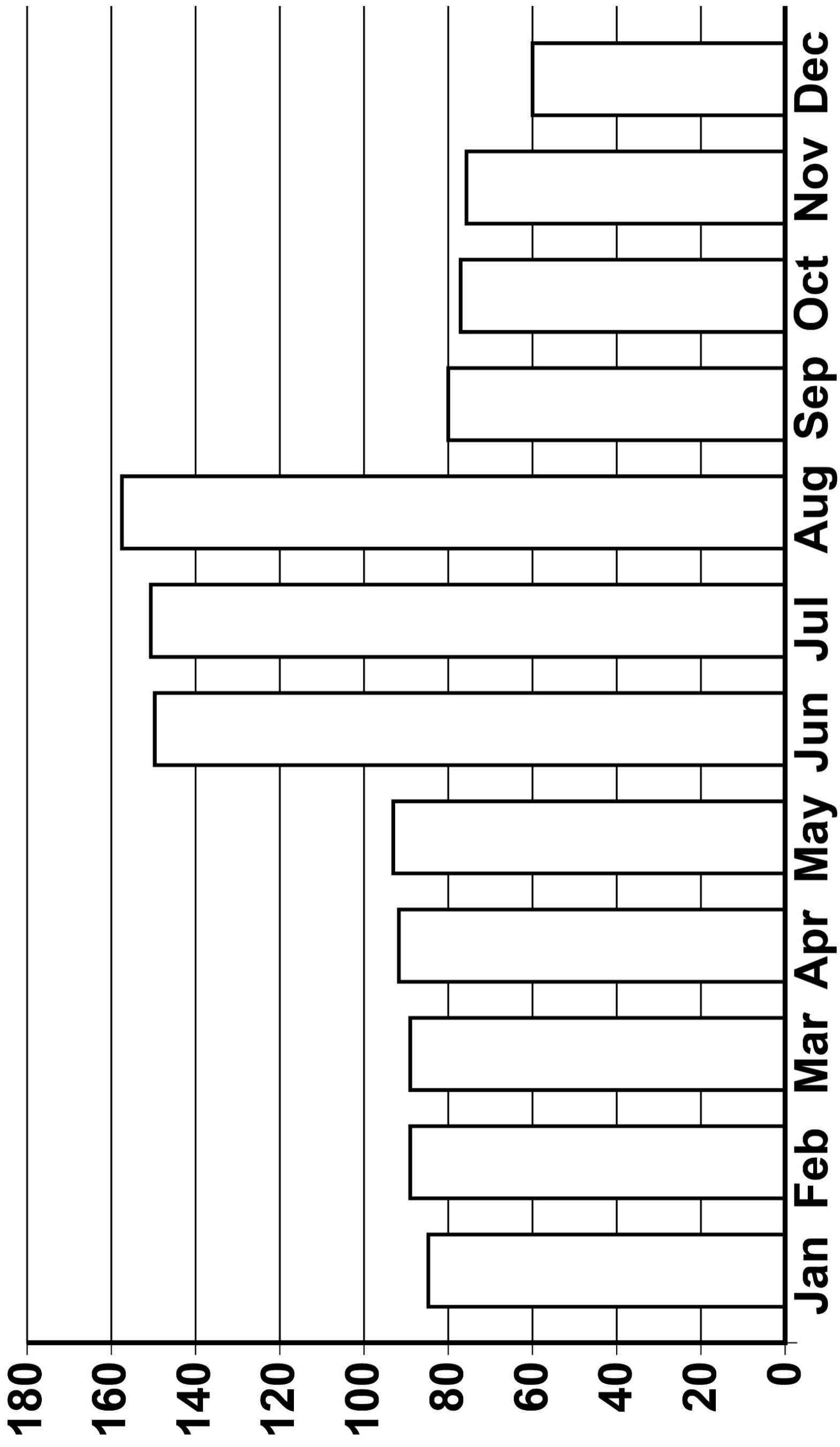
## **APPENDIX E**

**Room bookings by month and day of the week in Drake Hotels PLC's budget hotels 2019**

**The graph showing room bookings by month is shown on page 8 and the graph showing room bookings by day of the week is shown on page 9.**

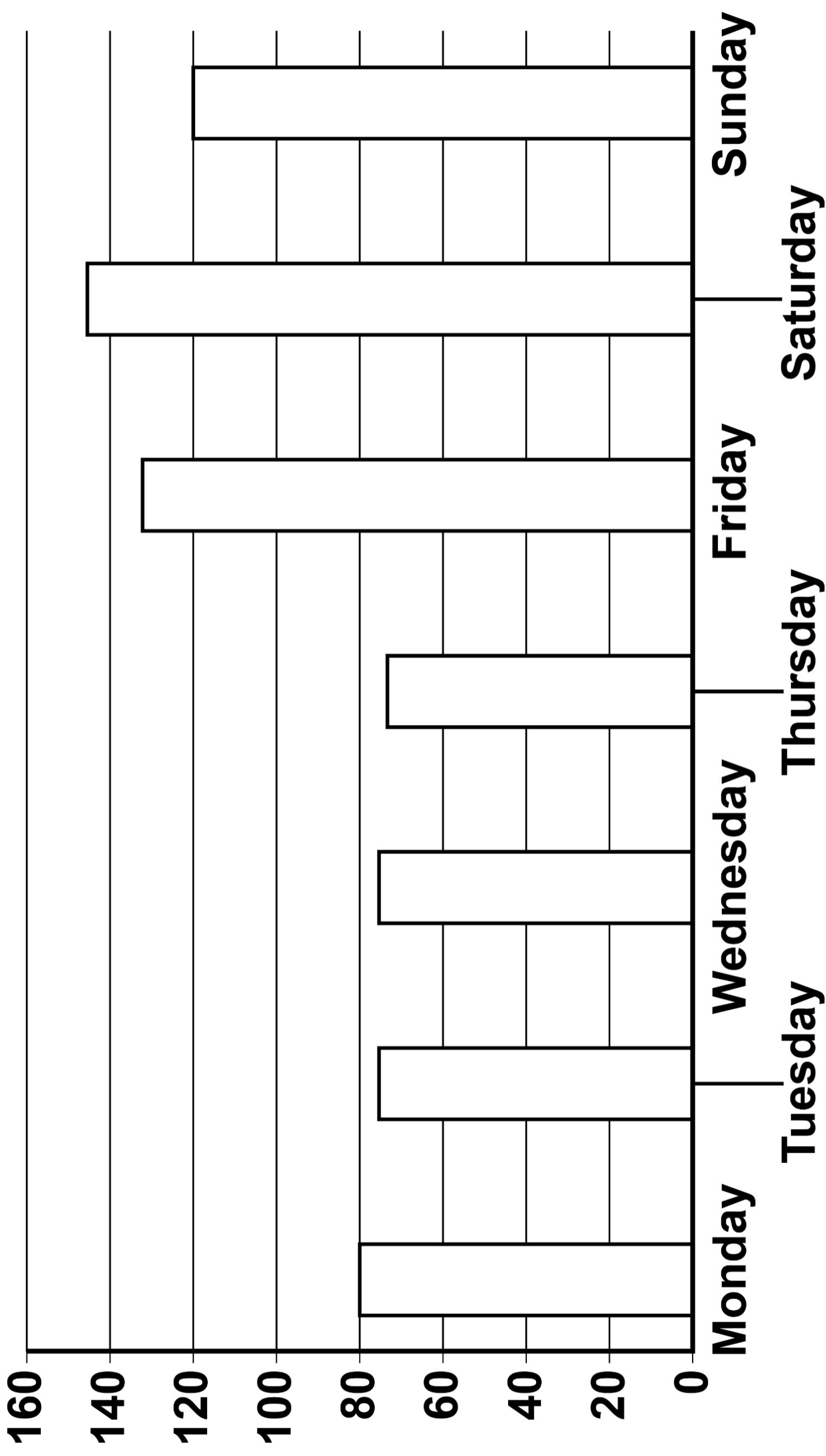
**[Turn over]**

**Index of sales of rooms booked per month  
(average monthly bookings = 100)**





**Index of rooms booked by day of the week  
(average daily bookings = 100)**



0	2
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**Source material for Question 2.**

## **NARI**

**Nari is a mobile phone manufacturer based in Asia. Although its brand name is not as strong as the Apple iPhone, Nari's phones sell at much lower prices which make them competitive. Nari adds new features to its phones and develops new models every few months. The company has an objective of 95% of sales from products launched in the last year. It has relatively low profit margins but high sales volumes.**

**To win business, Nari promises the retailers that sell its phones a lead time of 48 hours; any delay results in a major discount for the retailers on the products they have ordered.**

**To achieve low prices and still be profitable, the company focuses on being more efficient than its rivals. The company has a 'Just in Time' approach to manufacturing. It has a global supply chain with hundreds of different suppliers of components based in more than 50 countries. These components are delivered using a variety of transportation methods every few hours from all over the world to its assembly factories in China.**

**Some of Nari's suppliers have factories based in emerging economies. The managers of a number of these suppliers use Taylor's motivation theory to motivate their employees.**

**[Turn over]**

**The company invests heavily in projects to help local communities where it is based. It contributes some of its profits every year to charities and provides significant finance for initiatives to protect the environment.**

**Nari has recently experienced protectionism in its European markets as governments have limited the number of phones it can sell in their countries.**

**Regional breakdown of Nari's global sales in 2019**

	<b>%</b>
<b>USA</b>	<b>5</b>
<b>Asia</b>	<b>55</b>
<b>Europe</b>	<b>30</b>
<b>Rest of the world</b>	<b>10</b>

**END OF SOURCE MATERIAL**

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