



Cambridge Pre-U

BUSINESS AND MANAGEMENT

9771/01

Paper 1 Business Concepts

For examination from 2020

SPECIMEN INSERT

2 hours 45 minutes

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.



This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document has **4** pages. Blank pages are indicated.

WestCentral Trains (WCT)

WCT is one of the country's Train Operating Companies (TOCs). These companies purchase franchises from the Government to operate rail services on certain routes. The Government is now proposing a change of policy – extending the franchises from 8 to 15 years. Although this would reduce competition for each franchise, as there would be fewer opportunities for rivals to bid for them, it gives each TOC the ability to plan and invest for the long term.

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The franchises can be withdrawn if minimum performance standards are not achieved. These Government-imposed standards apply to train punctuality, overcrowding limits and the quality of customer service. WCT owns and manages the stations along the franchised routes but WCT leases trains from the train leasing companies. Leasing charges have been relatively low in recent years due to low interest rates.

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WCT operates several routes in the Midlands. The company receives an annual subsidy from the Government for operating some loss-making routes that are considered to be vital for the local economy or offer environmental benefits. WCT has indicated that the number of trains on these routes would be cut without the subsidy. It has lobbied the Government to maintain its current policy, despite the Government's aim to cut the budget deficit.

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Appendix 1 shows the trend in rail passenger numbers nationally. The general view of the rail industry is that the slow economic growth and reduced disposable incomes of many consumers would combine to reduce passenger growth and TOC profitability for several years.

Investment of £10 m planned

One route that WCT operates, the Midway Line, is experiencing falling revenue and ticket sales. A market survey provided the following information:

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- A new bypass close to the train route has increased the number of car journeys.
- Many potential passengers were unaware of the improved new trains that WCT had introduced. These have resulted in reduced journey times.

WCT management is planning a £10 m investment to improve the stations on the Midway Line. The stations would be redecorated and new security cameras and alarms would be fitted. Additional 'smart ticket' machines would be installed. All of these measures would reduce station staffing needs, especially at off-peak times. To cope with the planned increase in passenger numbers some additional trains would be operated requiring additional drivers and conductors. Forecast net cash flows following the proposed investment are shown in Appendix 1.

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Promotion strategy needed

The Marketing Director, Sheila Khan, has been asked to draw up a promotion strategy for the Midway Line once the station investment is completed. She has decided to focus on increasing awareness amongst the travelling public of the benefits of travel on the Midway Line. Sheila is considering using both advertising and other sales promotion tactics. It is well known in the rail industry that advertising elasticity of demand is low but she believes that this is due to many of the adverts being poorly targeted.

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Workforce planning – the most important factor?

The Human Resources Director, James Hill, stated that ‘an effective workforce plan will be the crucial factor determining the success of this project’. His argument is based on the following two factors:

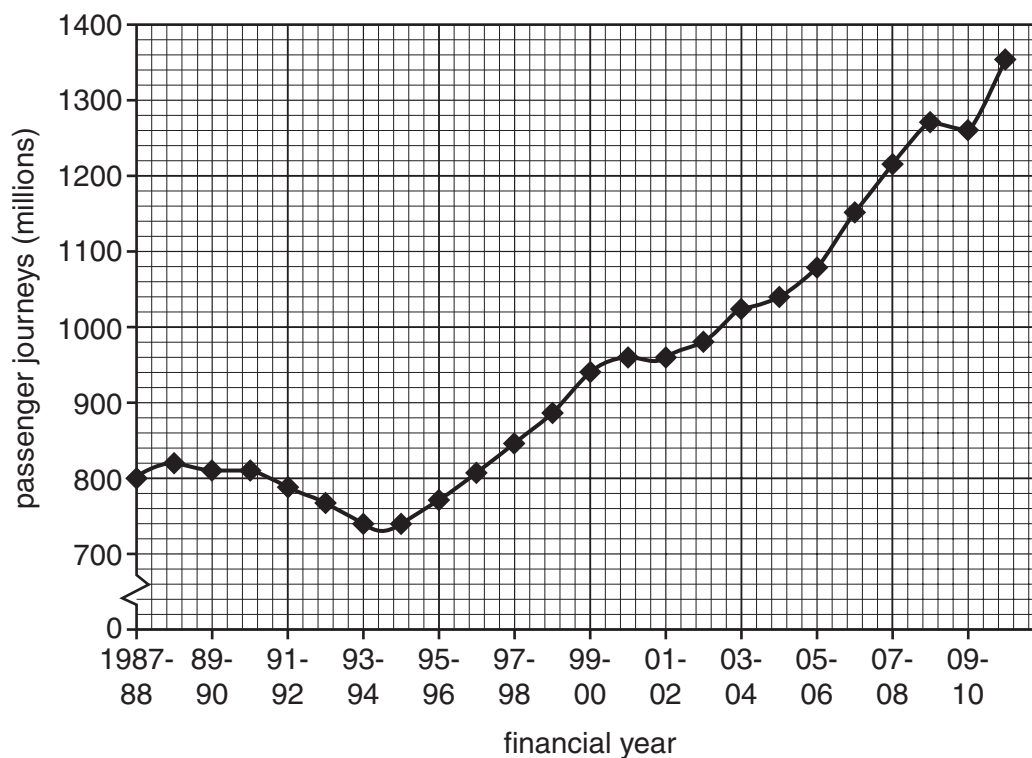
- The expected cost savings depend on staffing cutbacks within the stations. If these are not handled sensitively – for example, by offering displaced workers the chance to apply for vacancies elsewhere within WCT – the trade union could take disruptive action.
- The cost of employing additional train operating staff would be reduced if temporary and part-time contracts were offered until the level of increased demand for the Midway Line was fully established.

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Appendix 1: Forecast net cash flows following investment in the Midway Line

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Net cash flows	(£10 m)	£2 m	£4 m	£4 m	£6 m	£7 m

Appendix 2: Passenger journeys on Britain's rail network (Source: Office of Rail Regulation)



Appendix 3: Discount factors at 10% discount rate

Year 1	0.91
Year 2	0.83
Year 3	0.75
Year 4	0.68
Year 5	0.62

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