

Mark Scheme June 2007

Results Mark Scheme

GCE Business Studies (6125)

9076/6125/02 June 2007 Mark Scheme

Virgin Active 2005: Spin or Spa?

The following should be used in conjunction with the skill criteria set out in each of the four assessment objectives

AO1 - Knowledge and understanding

Candidate makes use of the background information and **all** appendices to gain Level 4 and makes correct use of business terminology at advanced level with respect to the various aspects of business planning, eg

- Planning Process, such as aims, objectives, strategy, targets, development, monitoring and evaluation/self review
- Marketing, such as unique selling point (USP), premium or competitive pricing, market segment, product development, shifts in supply, local monopoly, price elasticity of demand, use of branding, marketing mix, marketing plan and audit, market research methods
- Finance, such as budgeting, return on capital employed (ROCE), debt and equity, liquidity, gearing, external and internal sources and methods of financing, long and medium term finance
- Production/Operations, such as capacity utilisation, operational efficiency, economies of scale, quality control, planning permission, public sector directives, minimum standards
- Human Resources, such as the nature of the labour market, recruitment and selection methods, staff training and development, remuneration, leadership styles and motivation tactics

AO2 - Application

The Business Plan (with reference to at least 3 functional areas) **MUST** be present for candidates to achieve more than level 2.

Candidates show that they are able to use business terminology in context through, eg

- Capacity Utilisation theory could be applied, eg if the treatment rooms in option 2 are at 83% (20 clients) capacity then there is 14% spare capacity (4 more clients per day)
- SWOT and PEST analysis is applied appropriately to the options, e.g. to compare the Spin Studio option (Option 1) with Spa option (Option 2) in terms of availability of finance, marketing demands, external constraints, staffing, disruption costs, etc.
- Use of product development analysis to show that the male grooming market is developing given changes in male behaviour, changes in social attitudes to male grooming.
- Pricing policy is applied, eg a premium membership fee could be charged for those members who use the Spa services, such as massage and facial treatments (Option 2) This may be appropriate given the Spa is likely to attract members with higher than average disposable incomes. Competitive pricing may be dismissed as it is clear that Virgin Active is growing nationally and in Europe so an increase in membership fees from an average £40 might be recommended.

- Attempts to apply the notion of investment appraisal/rate of return given the basic financial data provided in the background information ie £40 per month memberships for each new member would mean an extra £480 in subscriptions per year, therefore 104 extra annual memberships needed to pay for the £50,000 investment.
- Show how a Gantt chart might apply to the Spa option
- Recruitment and selection might be considered, eg transfer of staff from other gyms or advertising in health magazines such as Men's Health, use of Virgin website for instructors or the use of college notice boards at Colleges of FE who have Beauty Therapy courses to advertise vacancies in the Spa.
- Marketing plan may include inserts in GQ/FHM magazines to woo male clients for option 2
- Product life cycle analysis could be applied to show that the Spin studio is in growth stage

AO3 - Analysis

Candidate shows that he/she is able to link ideas (eg consider consequences) in context/identify limitations and suggests improvements to the data, for example

- Uses supply and/or demand analysis, eg applies the concept Income elasticity of demand to users of the Spa or the Virgin Active club in general. Price elasticity of demand could be considered on the basis that membership fees may be increased without a loss of revenue as the Virgin health club brand seems to be doing quite well nationally and internationally
- Noting that the changes in fashion/tastes/preferences are very appropriate, given the increase in demand for male grooming which could be illustrated using supply and demand analysis
- Referring to revenues – those extra likely memberships of option 1 missing which makes the overall judgement of the Spin Studio difficult
- Questioning the actual population of Derby. Is there sufficient growth in the local population to warrant an increase in membership and in particular the numbers who are likely to want to do Spin classes?
- Noting the effect of disruption costs, particularly important for the Spin Studio option, which would inconvenience for existing members. Would any members be put off going to the health club? How might classes and staffing be affected? Would some instructors be laid off?
- Planning permission assumed granted across Spa option; this may be difficult to obtain depending on the effects on the local environment. Would car parking space be displaced?
- What might be the likelihood of financial constraints? Would Head Office simply finance the expansion (implied by the statement 'Head Office is examining the two options')
- Are there any other significant differences? For example, is the extension subject to many regulations, inspections?
- Is it sufficient to have one year's financial information? Is this year (2005) typical? If so, does the Spa treatment and/or the retail unit run usually at a loss and the overall health club at a profit? Are monies cross-subsidised from the memberships?
- Where is the evidence that the Spin classes have caused a growth in membership? We only have a class timetable which shows that those classes are becoming more popular but no evidence to suggest that there is a direct link between membership growth and spin classes
- The \$3.8 billion worth of sales in the US is not appropriate to this study as Derby may not have men who are increasingly spending more on 'pruning' themselves.

AO4 - Evaluation

Candidate is able to discuss information provided, present a validated conclusion and distinguish between evidence and opinion, eg

- Information on trends in male grooming is rather subjective as it is based on a number of magazine articles/websites which will no doubt include opinion, such as that of 'Oliver'
- The data may not be accurate or relevant. Euromonitor International may be a company which bases its research on a small sample, a random sample, a skewed sample. Who was questioned, when and where? Were consumers or retailers questioned? In which case if it was retailers how accurate are their sales forecasts? Male grooming products are constantly being developed so growth in sales for products which currently are not available may have been missed. Similarly certain products may be withdrawn.
- There is no professional financial advice on either option which is usually sought to provide a fuller picture before any real meaningful comparison can be made
- Are there no external constraints? Residents in Derby may protest against the Spa option given the building work that will be necessary.
- In the Spa, the shop does not really present too much of a risk as the CF suggests but to double the capacity of the treatment section might be a little ambitious. With only a growth of 5 to 10 male customers expected, the trends in male grooming are not so significant.
- A typical conclusion may suggest that whilst there is insufficient data to make a 'calculated' and prudent decision, but given the amounts of money involved and the success of the Virgin Active group, the risk of either investment option is quite low and perhaps both projects could be pursued by Head Office though not perhaps simultaneously given the disruption effects.