

General Certificate of Education
January 2007
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 1

BUS1

Wednesday 10 January 2007 9.00 am to 10.00 am

For this paper you must have:

- an 8-page answer book
- an insert for use when answering question 1(b) (enclosed).

You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS1.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 52.
Two of these marks will be awarded for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- Both questions carry equal marks.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Answer **both** questions.

Total for this question: 25 marks

- 1 Study the information and then answer **all** parts of the question that follows.

Hoggard Organics' UK debut

Organic food is produced without the use of man-made chemicals such as fertilizers and pesticides. Sales of organic food grew rapidly in the USA and by 2000 had exceeded £8000 million per annum. This was a major factor persuading Stephen Hoggard to launch *Hoggard Organics*. His take-away organic food shops benefited from the rising popularity of chemical-free food. Within three years, he had established a chain of 100 shops across Canada and the USA, funded by loans and debentures. The shops sold sandwiches, salads, drinks and cakes with only organic ingredients and became very popular with consumers seeking healthy meals. 5

Stephen was aware that UK sales of organic foods were growing strongly too. Sales had increased in recent years at nearly 100% per year and had exceeded £1100 million per annum by 2005. A move into the UK was a natural development for *Hoggard Organics*, before other, larger businesses, such as *Tesco*, dominated it. Many of *Hoggard Organics'* senior managers were pushing to take advantage of the trend in consumers' tastes towards organic products. Stephen, therefore, agreed to conduct market research in the UK. 15

However, Stephen was concerned about the proposed expansion into the UK as it would involve more borrowing. He insisted that careful financial planning was essential. "The UK market is different from that in the USA and we are selling in a niche market which is more risky anyway. Asking shop managers to prepare cash flow forecasts and budgets will help to increase the company's chances of success." Part of the company's financial planning involved drawing up a break-even chart for a typical *Hoggard Organics* shop in the UK. This is shown on the **Insert**, without its sales revenue line. 20

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- (a) What is meant by the term ‘debentures’ (line 7)? (2 marks)
- (b) (i) *Hoggard Organics* forecasts that the average amount spent by each of its UK customers will be £10. Use this information to draw the sales revenue line onto the break-even chart on the **Insert**. (3 marks)
- (ii) Assume that a typical *Hoggard Organics* shop actually receives 15 000 customers during its first year of trading. Mark and label A, B or C, the following on to the break-even chart on the **Insert**:
- A the sales revenue earned from attracting 15 000 customers
 - B the total costs of supplying 15 000 customers
 - C the amount of profit or loss earned from 15 000 customers.
- (3 marks)
- (iii) State on the **Insert**, whether the shop will make a profit or loss if it attracts 15 000 customers annually. (1 mark)
- (c) Analyse **two** possible benefits to *Hoggard Organics* of conducting market research before expanding into the UK. (7 marks)
- (d) All *Hoggard Organics*’ shop managers in the UK will be expected to draw up cash flow forecasts and budgets for their individual shops. To what extent might the use of these techniques increase the company’s chances of success? (9 marks)

Turn over for the next question

Turn over ►

Total for this question: 25 marks

2 Study the information and answer **all** parts of the question that follows.

Playstation Portable (PSP) arrives at last

The new Sony Playstation Portable (PSP) has been a huge success even during the launch stage of its product life cycle. Many stores around the UK announced that they had sold out of stock within hours of the PSP's European launch, as fans queued throughout the night to buy them. The PSP's introduction to Europe was delayed due to supply problems, and eventually occurred nine months after it hit Japanese stores and six months after it became available in the USA. 5

Picture of a PSP is not reproduced here due to third-party copyright constraints.

Unlike its nearest rival, the Nintendo DS, the PSP plays full-length movies, downloads and plays music and video, and surfs the internet. Priced at £180 in the UK, the Sony PSP is relatively expensive, but Sony expects to sell one million in the UK within four months of the launch. Its size is a unique selling point (USP). Demand in the UK for the PSP is anticipated to be price inelastic, allowing Sony to use a price skimming strategy. The PSP's unique features and clever design have boosted global demand and Sony expects to sell 13 million PSPs worldwide within one year of its launch. Despite these sales and high prices, it is likely to be some time before the PSP generates a positive net cash flow for Sony. 10 15

According to Alan Duncan, the Marketing Director for Sony Computer Entertainment in the UK, the PSP is aimed at a clearly defined segment of the market and, initially, will be snapped up by 18 to 35 year-old male 'entertainment opportunists'. "These are people who aren't prepared to wait or be told what they should listen to," Mr Duncan said. Two million people in Britain fit this profile, he believes. Qualitative market research shows that few women are likely to want the PSP. 20

Sony has developed a range of games for the PSP which should generate high profits when they become widely available. Sony hopes its launch will break Nintendo's near monopoly on handheld gaming and encourage adults to play video games on the move. Nintendo is due to release a smaller version of its popular Gameboy device within two months of PSP's UK launch. 25

Sources: adapted from *www.portal.telegraph.co.uk*, 31 August 2005

- (a) What is meant by the term ‘unique selling point (USP)’ (lines 11–12)? *(2 marks)*
- (b) Outline **two** factors that allowed Sony to use successfully a strategy of price skimming for the Playstation Portable (PSP). *(6 marks)*
- (c) Analyse why the Playstation Portable (PSP) is unlikely to earn profits for Sony during the early stages of its product life cycle. *(8 marks)*
- (d) Discuss the possible advantages and disadvantages to Sony of targeting the Playstation Portable (PSP) at ‘... a clearly defined segment of the market’ (lines 19–20). *(9 marks)*

END OF QUESTIONS

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Surname		Other Names	
Centre Number			Candidate Number
Candidate Signature			

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Insert

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Insert for use with **Question 1(b)**

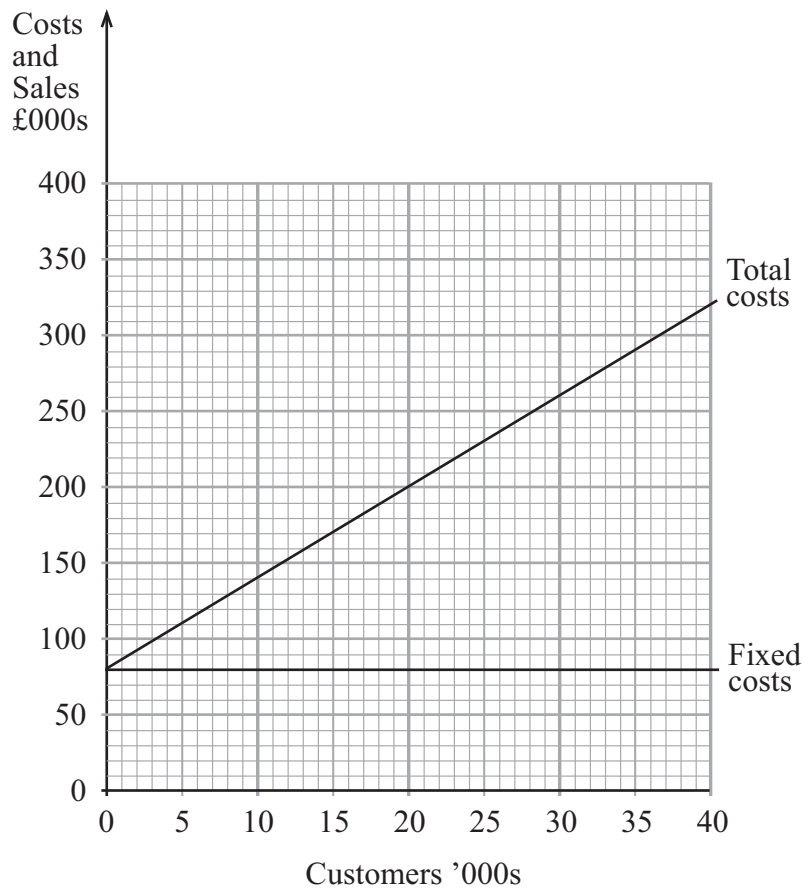
Fill in the boxes at the top of this page.

Fasten this sheet securely to your answer book.

TURN OVER FOR BREAK-EVEN CHART

Turn over ►

Hoggard Organics – A Break-Even Chart for a Typical UK Store



Annual fixed costs = £80 000 p.a.

- (b) (i) *Hoggard Organics* forecasts that the average amount spent by each of its UK customers will be £10. Use this information to draw the sales revenue line onto the break-even chart above. (3 marks)
- (ii) Assume that a typical *Hoggard Organics* shop actually receives 15 000 customers during its first year of trading. Mark and label A, B or C, the following on to the break-even chart above:
- A the sales revenue earned from attracting 15 000 customers
 - B the total costs of supplying 15 000 customers
 - C the amount of profit or loss earned from 15 000 customers.
- (3 marks)
- (iii) State, on the line below, whether the shop will make a profit or loss if it attracts 15 000 customers annually.

.....
(1 mark)