General Certificate of Education
June 2008
Advanced Subsidiary Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

BUSINESS STUDIES **BUS1 R**
Unit 1

Thursday 22 May 2008 9.00 am to 10.00 am

For this paper you must have: • an 8-page answer book. You may use a calculator.

Time allowed: 1 hour

Instructions
- Use black ink or black 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 R.
- Answer **both** 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 using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- Both questions carry equal marks.

Answer **both** questions.

Total for this question: 25 marks

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

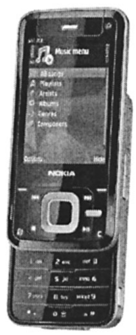
All change at Nokia

Nokia's sales have reached a five-year high. The company sales of mobile phone handsets from April to June 2007 were 100 million, a substantial increase on the 77.5 million it sold in the equivalent period in 2006. In contrast, Motorola, one of Nokia's biggest rivals, saw its sales fall in the same three-month period in 2007.

Nokia's performance has been helped by the company focusing on selling mobile phones in growing markets such as India. India is now a larger market for Nokia than the USA. Nokia's sales revenue from India was £1800 million in 2006. Of India's 185 million mobile phone owners, 85 million own Nokia's products. India's population is 1100 million and its average incomes are low at about £2000 per annum. However, average incomes are expected to grow by 8% per annum until 2012. The company's success in the very competitive Indian market is based on selling its low to middle range products relatively cheaply.

Despite rising sales, Nokia continues to manage its costs carefully. In 2007, it reduced labour costs by cutting 340 jobs in its home country of Finland, with 360 further job losses in other countries.

Nokia's N81 mobile phone – designed for use with the company's Music Store.



Source: CENT.co.uk

Nokia has also launched a global music and games download service. The online Nokia Music Store will make it simpler and cheaper for Nokia's customers to use its handsets as music players. It sells music singles at 70 pence compared to 79 pence for a download from Apple's iTunes store. At the same time, Nokia has introduced a series of new multimedia phones including its N81 which is designed to directly challenge Apple's iPhone. Nokia predicts that the rate of market growth for multimedia phones will be 50% during 2007.

Source: adapted from BBC News at *bbc.co.uk/news*

(a) What is meant by the term 'market growth' (line 21)? *(2 marks)*

(b) Calculate the percentage increase in Nokia's sales of mobile phone handsets from April to June 2006 and the same period in 2007 (lines 2–3). *(3 marks)*

(c) Explain **one** reason why Nokia might want to cut its labour costs. *(4 marks)*

(d) Nokia has introduced the Nokia Music Store and the N81 mobile phone handset. Examine the possible implications for Nokia of having both of these major products in the introductory stages of their product life cycles at the same time. *(7 marks)*

(e) India is a large and growing market. Discuss the case **for** and **against** Nokia focusing on selling mobile phones in this market. *(9 marks)*

Turn over for the next question

Total for this question: 25 marks

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

The Pie Shop plc

Starting with one shop selling meat pies, Phil Duxbury has built a business with 77 branches across the UK and a turnover of £270 million. The idea was a success from the start and growth has been rapid despite fierce competition from other food outlets such as the West Cornwall Pasty Company. Much of The Pie Shop's growth has been financed by bank loans, although, on occasions, its rapid growth has led to cash flow problems.

Phil developed a simple but distinctive business model. The shops are sited in busy shopping locations and are identically and expensively furnished. The aim is for a quality image but this has resulted in high overheads. However, the company uses this quality image as a unique selling point (USP). The company's pies are made from the best local ingredients and sell at premium prices. The branch managers decide on the range of pies to be sold and these vary according to the season and the availability of ingredients. All of the pies are made and cooked in the shop in which they are sold.

The Pie Shop spends heavily on marketing to emphasise its quality product. It also presents itself as supplier-friendly and pays its suppliers within five working days of delivery.

The company's most profitable branch is near Hyde Park in London. The fixed costs at this branch are the highest – £1 560 000 per year in 2007. In a typical month, the Hyde Park branch attracts 40 000 customers who spend an average of £8.75 each. The variable costs of supplying each customer are £4.25.

The Directors of The Pie Shop plan further growth and this has generated other changes. The Board of Directors decided that from December 2006 each branch would operate as a separate profit centre and control its own budgets. Some branch managers were opposed to this decision, despite the company investing £850 000 in a training programme.

(a) What is meant by the term ‘overheads’ (line 9)? *(2 marks)*

(b) Outline **one** possible advantage to The Pie Shop of having a unique selling point (USP). *(3 marks)*

(c) Calculate the average monthly profits earned by the Hyde Park branch of The Pie Shop in 2007. *(5 marks)*

(d) Examine **two** possible benefits to The Pie Shop of drawing up cash flow forecasts. *(6 marks)*

(e) To what extent do you agree with the decision to operate each of The Pie Shop’s branches as a separate profit centre with delegated control of budgets? *(9 marks)*

END OF QUESTIONS

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