Centre Number						Candidate Number				
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
June 2013

Business Studies BUSS1

Unit 1 Planning and Financing a Business

Monday 20 May 2013 1.30 pm to 2.45 pm

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 15 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- Questions 2(b) and 2(c) should be answered in continuous prose.
  In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend about 20 minutes answering Question 1.

Read the **case study** and then answer the questions that follow.

Akanni's Decisions

Gluten is a protein found in grains, such as wheat and barley. In the UK, an estimated 1% of the population (over half a million people) is believed to have an intolerance of, or allergy to, gluten. Gluten-free foods are processed so that they do not include gluten.

Akanni had started to produce gluten-free food at home because some of his family had gluten intolerance. Through word of mouth, a number of people started requesting regular orders of Akanni's products. Akanni decided he would need to move into a small factory to help him increase capacity. His potential customers would buy his products only if they knew they were gluten-free. Consequently Akanni applied to the owner of the 'gluten-free' trademark and was granted a licence to use this trademark, in return for a payment of £2000 per annum.

Akanni had to choose one of two options:

- Option A: to supply all of his products to a major health food retailer which had offered a contract to supply his food to its shops
- Option B: to sell directly to customers through the internet.

Akanni first looked at Option A. Details of the expected costs and revenue are shown in **Figure 1** below.

Figure 1: Summary of costs and revenue for Option A – supplying the retailer

Output (units)	Average price £	Total revenue £	Fixed costs £	Variable costs £	Total costs £
120 000	2.50	300 000	132 000	144 000	276 000

Akanni enjoyed creating new types of gluten-free food but the contract stated that the health food retailer would have the final decision on which products Akanni should make, as it felt it had a better understanding of the factors that influenced demand in this market.

Akanni then considered Option B. He liked the idea of being independent and making his own decisions. He believed that he could achieve a higher total contribution through Option B, because he could charge higher prices by selling directly to the consumers of his products, rather than via a retailer. However, his only information on this market niche came from some secondary market research conducted in the USA in 2010.

Akanni decided to use stratified sampling to get consumer opinions. He had sufficient savings to purchase a database of 4000 people in the UK with gluten allergies and intolerance. He used this database to conduct some primary market research of people who fitted into his target age groups and who lived within a 100 mile radius of his house. The replies showed him that people who were interested in gluten-free products:

- were desperate for high quality gluten-free food
- wanted the food delivered directly to their houses, as it was often inconvenient to shop for gluten-free foods
- would pay high prices for Akanni's products because he was able to use the 'gluten-free' trademark on his products.

In addition, a significant number would agree to a six-month contract to buy Akanni's products regularly if Akanni offered them a large discount.

Akanni summarised the key features of the two options. See **Figure 2** below.

Figure 2: Key features of Akanni's two options

OPTION A: Sell products to a health food retailer	**OPTION B: Sell products directly to customers via the internet**
Guaranteed contract for a minimum of two years, with further contracts if Akanni's products are satisfactory.	High risk; expected sales of £360 000 in first year but could be as high as £500 000.
Sales revenue of £300 000 guaranteed for both years.	Expected sales of £400 000 in second year, but could be as high as £560 000.
Expected profit would be £24 000 per annum	Expected profit would be 15% of sales revenue, **before** the deduction of additional costs of transport and administration. These additional costs would be £40 000 per annum.

Akanni was able to get free advice from a local business adviser. The adviser studied Akanni's budgets and warned him that as Akanni had limited experience the budgets were likely to be unreliable. The adviser indicated that for both Options A and B, Akanni would need to find £15 000 for a new IT system **and** £55 000 for the factory. She also advised him to set up as a private limited company rather than operate as a sole trader.

Akanni's bank offered him a £70 000 bank loan at 10% interest per annum for three years. However, the adviser put him in contact with Giles, the owner of an IT business. Giles offered to put £55 000 into Akanni's business (more than the £30 000 that Akanni would put in). Giles would also provide the IT system and deal with all IT issues, thus eliminating the need to spend £15 000 on a new IT system. In return, Akanni would set up a private limited company, with Giles owning 40% of the shares. Akanni agreed with Giles' proposal.

The two men agreed to choose Option B in preference to Option A.

Turn over for the questions

Answer **all** questions in the spaces provided.

You are advised to spend about **20 minutes** on Question 1.

1 (a) What is meant by the term 'demand' (line 20)?

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(2 marks)

1 (b) What is meant by the term 'total contribution' (line 22)?

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(2 marks)

1 (c) Explain why Akanni would be prepared to pay £2000 per annum to use the 'gluten-free' trademark.

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1 (d) Calculate the break-even output for Option A.

Break-even output ....

Workings ....

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(5 marks)

Question 1 continues on the next page

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1 (e) Explain possible reasons why Akanni used stratified sampling in his primary market research.

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2 (a) Analyse the problems that Akanni might face in producing an accurate **income** budget for Option B.

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(10 marks)

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Turn over ▶

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2 (b) Was Akanni right to decide to set up in business with Giles and form a private limited company, rather than operate as a sole trader? Justify your view.

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(15 marks)

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2 (c) Discuss whether Akanni and Giles made the right decision in choosing Option B rather than Option A. Use the data in **Figure 2** and the information in the case study to support your view.

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(15 marks)

Extra space ....

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END OF QUESTIONS

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ANSWER IN THE SPACES PROVIDED