

Paper Reference(s)

6121/01

Edexcel GCE

Business Studies (8076/9076)

Advanced Subsidiary

**Unit 1: Business Structures, Objectives
and External Influences**

Wednesday 10 January 2007 – Morning

Time: 1 hour

Materials required for examination

Answer book (AB08)

Items included with question papers

Nil

Instructions to Candidates

In the boxes on the answer book, write your centre number, candidate number, the paper reference, your surname, other names and your signature.

The paper reference is shown above.

Show all steps in any calculations and state the units.

Answer ALL questions in the answer book. Additional answer sheets may be used.

Information for Candidates

The marks for the various questions are shown in round brackets: e.g. (2).

There are 3 questions in this paper.

The total mark for this paper is 63.

There are up to 3 marks for the Quality of Written Communication.

All blank pages are indicated.

Calculators may be used.

Dictionaries may **not** be used in this examination.

Advice to Candidates

You must ensure that your answers to parts of the questions are clearly numbered.

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Turn over

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You have already seen the following text which gives details of a case study. It is included in this paper for your reference. Read it again carefully and then answer ALL the questions.

CONTEXT

Google 2005

*Throughout this context, values quoted are converted from US dollar equivalents.

Google, the internet search engine, was founded in the USA by Larry Page and Sergey Brin in 1998. Since then, the company has expanded to more than 1 900 employees worldwide, with a management team that represents some of the most experienced technology professionals in the industry. Dr Eric E Schmidt joined Google as chairman and chief executive officer in 2001. Google logs 200 million searches each day from people in 90 countries. 5

When Google first planned to sell its shares at the beginning of 2004, it was expected to value the business at between £8.8 billion and £14.7 billion. At this stage it was not known how many shares would be sold to investors. The flotation would allow the founders to convert some of their shares into cash and make many other employees rich, the company having sold 28 million shares to employees and consultants since 2001. 10

Google's success in attracting users and advertisers had not been lost on Microsoft, which in late 2003 was reported to have considered a pre-emptive acquisition of Google. This was not warmly received by Page and Brin. Google's growth had put it on a collision course not just with Microsoft but with other large internet companies, such as eBay, Amazon, Yahoo and America Online (AOL). These competitors were finding themselves increasingly in the same business of helping people find anything they could possibly want to buy online. Yet even among the internet's giants, Google was a little different. For instance, you will not have seen a Google advertising campaign because the company achieved its prominence, accounting for 40 per cent of all online searches, without spending a penny on brand advertising. 15

Unlike Amazon or eBay, which were born purely on commercial ambitions, Page and Brin always had an idealistic outlook. When they introduced Google to the world at a conference in April 1998, Page and Brin seemed suspicious of online advertising, calling it dangerous "because it is not clear who 'deserves' to be there and who is willing to pay more to be listed". Google made most of its money from 'sponsored link' advertising, although it licenses its search system to portals such as Yahoo and AOL. 20
25

When Google was a private business, the founders could be as idiosyncratic as they liked, taunting investment banks, smirking at anyone in a suit and pledging to 'do no evil'. The company was doing well by doing good. It was fun for everyone in the company. However, Page and Brin discovered that when companies go public certain rules must be followed and their failure to do this led to a delayed flotation. Google also went against convention with an online 'Dutch auction' process which allowed investors to set the sale price for the shares. The founders argued that the friends of the 'Megabank' (large banking organisations) would no longer get an allocation from an underpriced initial public offering and sell for an instant profit. 30

When Google shares eventually came up for sale in August 2004, the price of its initial public offering was slashed to £45, from earlier estimates of between £56 and £70, and the number of shares for sale was reduced. This lowered the amount Google could raise from around £2 billion to £1 billion – a sign that the volatile market conditions and a stream of negative publicity had 35

taken its toll on this anticipated flotation. However, by the end of November 2004 the shares were worth £89, valuing the business at £25 billion. At the time of the Google share sale, Yahoo was worth around £20 billion and eBay £27 billion. Google's shares reached a high of £114 in January 2005 but closed at £98 prior to 14 February, when employees of the company were allowed to sell any shares they had. The share price on 15 February closed at £101. 40

For the first six months of Google's life as a public company, share sales by employees had been severely restricted in an attempt to stop newly-enriched workers 'rushing to the door'. The temptation for employees now was that they had the chance to move from being rich on paper to being actual millionaires. More than 60 per cent of the equity in the company was available for trade, providing the first real chance for the market to get an indication of how it valued the business. Not all staff with shares sold immediately. Some were discouraged by the tax rule in the USA that levies a 35 per cent tax on the sale of shares owned for less than one year, compared to the 15 per cent tax paid on investments held for more than one year. The shares were worth approximately 17p in 2000 and £2 in 2003 and therefore many employees chose to disregard this penalty. 45 50

February 2005 saw the launch of Microsoft's internet search engine. However, it had very little impact on Google, the market leader it would have to beat. At this time Google's market value had risen to £30.5 billion. This not only made it bigger than its internet rivals but also bigger than the traditional economy giants like General Motors and Ford combined. Google stunned the stock market, which had claimed the company was overpriced, when it had launched six months earlier. Google's profits soared to £420 million, further raising investor enthusiasm. 55

Google had undoubtedly established a strong market lead over its competitors. However, its position remained far from unassailable. Microsoft spared no effort or expense in promoting its search engine and had a history of allowing others to develop a market before moving in and taking the lion's share. 60

Sources: adapted from

- 'Ubiquitous? Omniscient? It must be Google', Richard Siklos, *Daily Telegraph*, 2 November 2003
- 'Google float could bring price tag to \$25bn', Simon English, *Daily Telegraph*, 28 January 2004
- 'Google flotation still dogged by last minute complications', Andrew Gumbel, *The Independent*, 18 August 2004
- 'It could be Google flotation', Stephen Khan, *Daily Express*, 18 August 2004
- 'Google forced to slash \$1.66bn from float price', Simon English, *Daily Telegraph*, 19 August 2004
- 'Type in "flotation" and the search engine comes up with "shambles"', Neil Collins, *Daily Telegraph*, 19 August 2004
- 'Google forced to cut float price', David Teather, *The Guardian*, 19 August 2004
- 'Google forced to cut float price by a quarter', Abigail Rayner, *The Times*, 19 August 2004
- 'Search engine enters the real world', Patience Wheatcroft, *The Times*, 19 August 2004
- 'Google boys to pocket £650m from share sale', Andrew Murray-Watson, *Daily Telegraph*, 21 November 2004
- 'Bill Gates searches for way to end Google's dominance of the web', David Derbyshire, *Daily Telegraph*, 2 February 2005
- 'Google shrugs off MSN rival', Tony Glover, *The Business*, 6/7 February 2005
- 'Google looks for love on February 14', David Litterick, *Daily Telegraph*, 12 February 2005
- 'Google staff await their Valentine's Day fortunes', Simon English, *Daily Mail*, 14 February 2005
- 'Final restrictions on Google's stock lifted as boss nets £42 million', by Abigail Rayner, *The Times*, 15 February 2005

APPENDIX 1

Working conditions of Google employees

‘Google seeks to hire only the best. We conduct business following the spirit and the intent of the equal opportunity laws and we strive towards maintaining a diverse community. We encourage excellence at all levels in our organization.

You won’t find any bored engineers at Google. You will find friendly colleagues, fascinating projects, and the opportunity to make life better for tens of millions of people every day. We work on challenging, real-world problems – like crawling and indexing billions of documents, or delivering search results to a mobile phone. We’re constantly pushing the limits of what can be done with information. And while we work hard, we also have fun doing it. Google is an unusually open environment where kids feel welcome and the pace is intense, but family-friendly.

Innovation is our bloodline. Even the best technology can be improved. We see endless opportunity to create even more relevant, more useful, and faster products for our users. Google is the technology leader in organising the world’s information.

Boldly go where no one has gone before. There are hundreds of challenges yet to solve. Your creative ideas matter here and are worth exploring. You’ll have the opportunity to develop innovative new products that millions of people will find useful.’

Google benefits for employees in the UK

Health care	Holidays
<ul style="list-style-type: none"> • Life insurance and personal accident insurance 	<ul style="list-style-type: none"> • 25 days per calendar year, plus 8 paid UK bank holidays
<ul style="list-style-type: none"> • Critical illness coverage 	Other Benefits
<ul style="list-style-type: none"> • Sick pay – up to 13 weeks of sick leave at 100% of salary continuation 	<ul style="list-style-type: none"> • Gym membership: Employees are offered a 95% subsidy on gym membership to a local London gym, negotiated on an annual basis
<ul style="list-style-type: none"> • Long-term disability insurance 	<ul style="list-style-type: none"> • Educational subsidy: Google encourages employee development and will reimburse a maximum subsidy per year which may be applied to tuition, books, lab fees, parking passes and registration fees
<ul style="list-style-type: none"> • Private medical and dental insurance 	<ul style="list-style-type: none"> • 2 free lunches and 1 free breakfast, per week
<ul style="list-style-type: none"> • Annual reimbursement of eye tests 	<ul style="list-style-type: none"> • Quarterly on-site massage
<ul style="list-style-type: none"> • Business travel accident insurance 	
<ul style="list-style-type: none"> • Group personal pension plan – we will match any employee contributions from 3% – 7% of the base salary 	

Source: adapted from www.google.com (2005)

Answer ALL questions.

1. (a) Define the term **mixed economy**. (2)
- (b) Analyse how Google may have benefited from the decision to ‘go public’ (line 29). (7)
- (c) Assess the likely reasons for the growth of the tertiary sector of the economy, with particular reference to firms in the Information Communications Technology (ICT) service industry. (11)

(Total 20 marks)

2. (a) What is a **mission statement**? (2)
- (b) Analyse the importance of profit as one of Google’s objectives. (7)
- (c) Assess the importance of job design in ensuring that Google’s employees are highly motivated and productive. (11)

(Total 20 marks)

3. (a) Analyse the likely effect on the demand for Google’s search engine following the introduction of Microsoft’s search engine in February 2005. (8)
- (b) Assess how Google might remain competitive. (12)

(Total 20 marks)

Quality of Written Communication: 3 marks
TOTAL FOR PAPER: 63 MARKS

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