



**Answer TWO of the three questions in this paper.**

**Write your answers in the spaces provided.**

If you answer this question put a cross in this box  .

**1. The Nintendo Wii**



On Friday 8 December 2006, Nintendo launched its long-awaited Wii console. The official launch was at the HMV store on London's Oxford Street, where people had queued for up to two days to be one of the first to try the new games console. The Wii was priced at £180.00 and sold almost 200,000 units in the first month, producing total revenue of approximately £36 million. This, along with the sales from games, was hoped to cover Nintendo's costs of production and add to the company's overall profits.

Image source: [http://www.amazon.co.uk/gp/product/images/B0007UATDG/ref=dp\\_othersviews\\_0?ie=UTF8&s=videogames&img=0](http://www.amazon.co.uk/gp/product/images/B0007UATDG/ref=dp_othersviews_0?ie=UTF8&s=videogames&img=0)

(a) Using an example, explain the meaning of the term '*total revenue*'.

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(b) Explain how changes in the costs of production might influence the profits of a firm like Nintendo.

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Nintendo has considered the marketing mix for the Wii very carefully. The company wants the new console to appeal to a wider range of market segments, rather than just the traditional video games market.

Source: adapted from <http://news.sky.com/skynews/article/0,,30100-13553226,00.html>

(c) Using examples, explain the meaning of the term '*market segmentation*'.

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(d) Identify **two** elements of the '*marketing mix*'.

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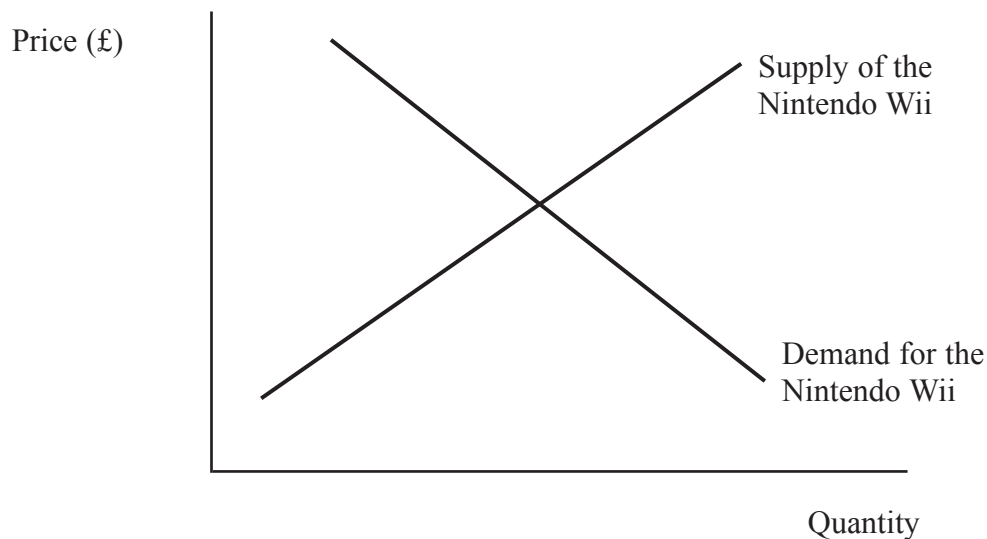
### Er, Nintendo, Wii have a problem



Launched before Christmas 2006, the Wii was an instant success. Many high street stores sold out within weeks. This left a waiting list of impatient and disgruntled junior consumers. Many parents turned to auction sites like eBay to buy their Wiis, but at a much higher price. The consoles were selling for up to £300 on eBay.

Source: adapted from [http://technology.timesonline.co.uk/tol/news/tech\\_and\\_web/article1661085.ece](http://technology.timesonline.co.uk/tol/news/tech_and_web/article1661085.ece)

The diagram below represents the market for the Nintendo Wii.



(f) Use the diagram to help you explain why the price of a Nintendo Wii on eBay was higher than in the shops.

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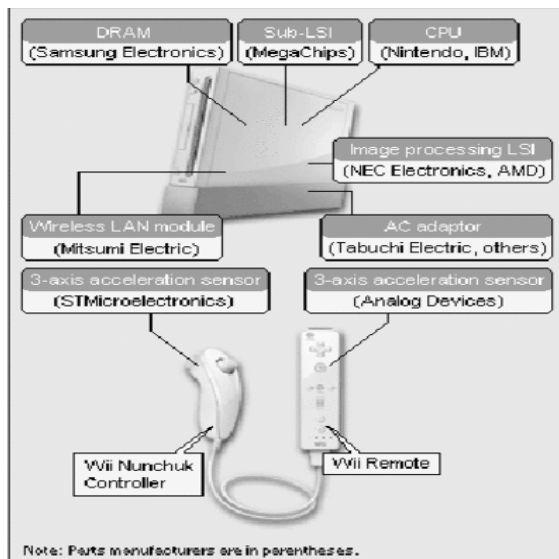
### 'I Just Had To Be Here'



Many game fans were prepared to make personal sacrifices to get their hands on a Wii when it was first launched. Marwan Elgamal, a 17-year-old student, sacrificed two days' pay from working at his local supermarket to queue outside HMV's Oxford Street store. He was one of the lucky ones and managed to get a Wii; many queued only to find that stocks ran out. They were left to face the prospect of paying a higher price on internet auction sites if they wanted to get a Wii!

Source: adapted from <http://news.sky.com/skynews/article/0,,15410-13555851,00.html>

Video games retailers claimed to be taking as many as 200 calls a day from parents hoping to snap up a bargain for their children. One retailer claimed that the high number of pre-orders for the Wii meant that as soon as stock came in, it went straight back out again – often ending up on eBay. Stores like Woolworths had to deal with angry and disappointed customers when their limited stocks ran out quickly. This cost the store hundreds of thousands of pounds of lost revenue that they had expected to receive.



The success of the Nintendo Wii in the console market has had effects on other stakeholders. As Nintendo rides high on a wave of profitability and popularity never known before, other companies are also involved in this success story.

Mitsumi Electric, for example, a Japanese manufacturer, has gained the most. It supplies parts for the Wii and helps assemble the console itself.

Image source: <http://www.tech.co.uk/home-entertainment/gaming/consoles/controllers/news/wii-success-making-component-suppliers-rich?articleid=607085111&zoompopup=true>



(g) Explain the likely views of the following on the vast popularity of the Nintendo Wii.

(i) Young people such as Marwan Elgamal.

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(ii) Video games retailers.

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(iii) Employees of Mitsumi Electric.

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Nintendo decided to use some celebrities to promote Wii at its official launch. Shortly before the first consoles were made available for sale at midnight, celebrities Ian Wright, Pat Cash, Nell McAndrew and Ricky Hatton demonstrated their skills on the console to waiting customers at the HMV store in Oxford Street.

Former tennis star Cash and model McAndrew exchanged shots on the Wii's tennis simulation, while ex-footballer Wright and boxer Hatton traded blows in a boxing game.

Cash admitted: "I have played a couple of times but the first time I played I lost to a 6-year-old".

Source: adapted from <http://news.sky.com/skynews/article/0,,15410-13555851,00.html>  
Image source: [http://www.amazon.co.uk/gp/product/images/B0007UATDG/ref=dp\\_others\\_views\\_0?ie=UTF8&s=videogames&img=0](http://www.amazon.co.uk/gp/product/images/B0007UATDG/ref=dp_others_views_0?ie=UTF8&s=videogames&img=0)

(h) Identify and explain **two** factors that Nintendo would need to consider when choosing a celebrity to help market the Wii.

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If you answer this question put a cross in this box  .

## 2. International Trade



Many businesses have reported that they expected 2008 to be very difficult for their business. In September 2007, it was announced that 39,000 manufacturing jobs had been lost over the previous twelve months. Some of the problems facing manufacturing businesses are rising wage costs and a strong pound – and cheaper imports are continuing to put UK manufacturers under increasing pressure to either cut jobs or move abroad.

Source: adapted from <http://news.sky.com/skynews/article/0,,30400-13565770,00.html>  
Image source: <http://static.sky.com/images/pictures/1493679.jpg>

(a) Using an example, explain the term '*unemployment*'.

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(b) Identify and explain **one** cost to the UK of rising unemployment.

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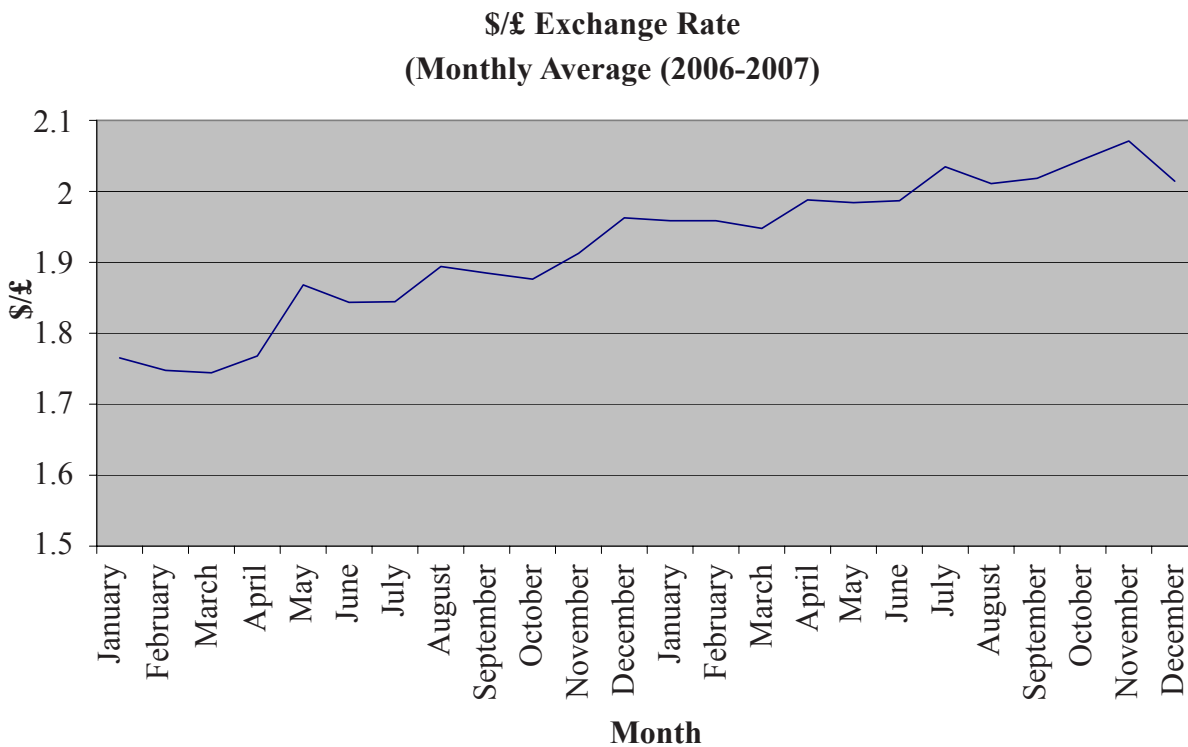
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### Pound Sterling Jumps In Value



Source data: <http://www.x-rates.com/d/USD/GBP/graph120.html>

Since January 2006, the British pound has become stronger against the United States (US) dollar. By the end of 2007, the pound had risen in value against the dollar by 14%. For British firms involved in international trade the effects of this are significant.

(c) Using an example, define the term '*international trade*'.

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### 800 Jobs To Go As Dyson Goes To The Far East



Image source: bized

Entrepreneur Sir James Dyson, famous for developing the bagless vacuum cleaner, is one example of a business person who has moved production overseas to take advantage of lower production costs. In 2002 he moved production of the vacuum cleaner from Wiltshire to Malaysia with the loss of 800 jobs. In 2003 he moved production of the Dyson washing machine to Malaysia which led to the loss of 65 jobs. In 2006 Dyson launched the 'Airblade', which can dry hands in ten seconds. Dyson said that the 'Airblade' would be produced in Asia as production costs can be as much as 30% less than in the UK.

### HSBC exporting 4,000 jobs to Asian centres



HSBC is to move 4,000 British jobs to India, China and Malaysia in the biggest example yet of British firms deciding to relocate (move) parts of their business abroad.

Bill Dalton, chief executive of HSBC, said: "This is the next stage in a process which started three years ago. It is essential to HSBC's continued success."

"As one of the world's largest financial services companies, HSBC has a responsibility to all its stakeholders to remain efficient and competitive."

Source: adapted from <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2003/10/17/cnhsbc17.xml>

Image source: <http://images.businessweek.com/ss/05/07/globalbrands/source/2.htm>

(e) Identify **two** reasons why firms might choose to relocate abroad.

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Some people are angry at the recent trend of UK firms to relocate some or all their business activities abroad.

- The increasing number of UK firms choosing to relocate part or all of their operations abroad remains a concern to the Government. These concerns are because the government has to deal with the problems associated with rising unemployment and falling economic growth.
- We are used to reading news about firms in the UK relocating their call centre operations to countries in the developing world such as India and Malaysia. The principal reason behind such an activity is to reduce costs (and therefore keep shareholders happy).

However, many customers in the UK complain about the lack of local knowledge of the operators who are dealing with the calls. This does not mean knowing about a particular street in Bolton but in having some understanding of the conditions and issues in the UK and its regions. Operators in India might be highly efficient, very well trained and, in many cases, very well educated, but they do not have that vital local knowledge.

Source: adapted from <http://www.bized.co.uk/cgi-bin/chron/chron.pl?id=2624>

- “This latest export of jobs by Dyson is confirmation that his motive is making even greater profit at the expense of UK manufacturing and his loyal workforce. Dyson is no longer a UK product.” (Derek Simpson – a trade union leader.)

Source: adapted from <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2003/08/21/cndyson21.xml>

(g) Explain the likely views of the following on the decision of UK firms to relocate their businesses abroad.

(i) The Government.

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(ii) Customers of companies with their call centres located abroad.

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(iii) Shareholders of companies like Dyson.

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Countries such as India, China, Korea and Indonesia are able to produce goods and services at much lower prices. As a consequence of relocation and ever increasing competition from these countries, concern has been raised about job losses in both the US and the EU.

Companies in countries like China can pay workers around \$2 a day whereas workers in the US might be paid \$100 a day. American and European consumers are only too happy to lower their cost of living by taking advantage of these cheaper, imported goods.

Image source: [http://www.idrc.ca/es/ev-5610-201-1-DO\\_TOPIC.html](http://www.idrc.ca/es/ev-5610-201-1-DO_TOPIC.html)

- (h) Explain **one** possible method by which the European Union might protect businesses from “cheaper imported goods” from countries such as China.

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If you answer this question put a cross in this box  .

### 3. Takeovers: England Kit Maker In Takeover Deal



In 2007 England kit maker Umbro agreed to a takeover by US sportswear giant Nike in a deal worth £285 million. Shares in Umbro soared after news of the proposal was announced.

Image source:<http://d.yimg.com/e1.yimg.com/p/071023/afp/isgemse23231007165724photo00.jpg?>

(a) Using an example, explain what is meant by the term '*takeover*'.

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### Nike Seeks Football Domination



Nike is famous for producing sports clothing for a number of sports. The company wanted to buy the Umbro brand because of its association with the England national football team. Umbro provides the kit for the England team.

The move is part of Nike's plan to become the leading global football brand before the 2010 World Cup finals in South Africa.

Image source: <http://www.google.co.uk/search?hl=en&q=nike+logo&btnG=Search&meta=>  
Image source: <http://www.ranchocaliforniasoccerleague.com/images/Umbro%20Logo%201.gif>

(c) Define the term '*brand*'.

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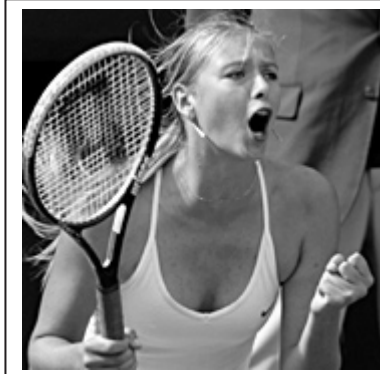
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Nike also supplies the kit for England's rugby team who enjoyed an outstanding World Cup in 2007, making it to the final against all predictions.

Sports stars such as Maria Sharapova (Tennis), Tiger Woods (Golf), and Wayne Rooney (Football), are among Nike's other clients whom they sponsor, meaning that the business is able to operate in a number of different markets.

Image source: <http://static.sky.com/images/pictures/1224759.jpg>

- (e) Identify **two** benefits for companies such as Nike of sponsoring tennis stars such as Maria Sharapova.

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Nike bought the shares from Umbro's shareholders for 193 pence per share, an increase of about 61% on the closing price of 120 pence per share on 17 October 2007.

Shares of Umbro were 165 pence on Monday 21 October 2007. They were as low as 108 pence on 26 September 2007.

Those standing to benefit from Umbro's sale include Newcastle United's owner, Mike Ashley, who is Umbro's second-largest shareholder with a 15% stake, and Jupiter Asset Management, Umbro's largest shareholder with 18.9%.

The takeover affects different people in different ways. England supporter James Preston said, "I always try to make sure that I have the latest England kit. At school, you have to keep up with fashion. I just spent £60 on the latest kit – I expect the price will be even higher next time."

The takeover of Umbro by Nike will give the company a 45% share in the market for replica football kits. With approximately half of the Premiership currently wearing Nike or Umbro kits, the future looks good for the company.

Source: adapted from <http://www.citywire.co.uk/News/NewsArticle.aspx?VersionID=97807>  
Image source: [http://img.thesun.co.uk/multimedia/archive/00374/01\\_ashley\\_280x390\\_374994a.jpg](http://img.thesun.co.uk/multimedia/archive/00374/01_ashley_280x390_374994a.jpg)

(g) Explain the views of each of the following on the deal between Nike and Umbro.

(i) Nike.

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(ii) Umbro shareholders such as Mike Ashley.

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(iii) Supporters of the England football team.

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Nike's takeover of Umbro could have been investigated by the Competition Commission. The Commission would investigate whether or not the takeover would be in the public interest.

Image source: <http://www.competition-commission.org.uk/images/template/header/logo.gif>

(h) Using an example, explain the role of the Competition Commission.

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