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**Pearson**  
**Edexcel GCSE**

Centre Number

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Candidate Number

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# Business Studies

## Unit 3: Building a Business

Friday 10 June 2016 – Afternoon

**Time: 1 hour 30 minutes**

Paper Reference

**5BS03/01**

**You do not need any other materials.**

Total Marks

**61**

### Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** the questions in Sections A, B and C.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

### Information

- The total mark for this paper is 90.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (\*) are ones where the quality of your written communication will be assessed  
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- A calculator may be used.

### Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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**PEARSON**

SECTION A

Answer ALL the questions. You should spend 40 minutes on this section.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 (a) Figure 1 shows a diagram of Maslow's Hierarchy of Needs.

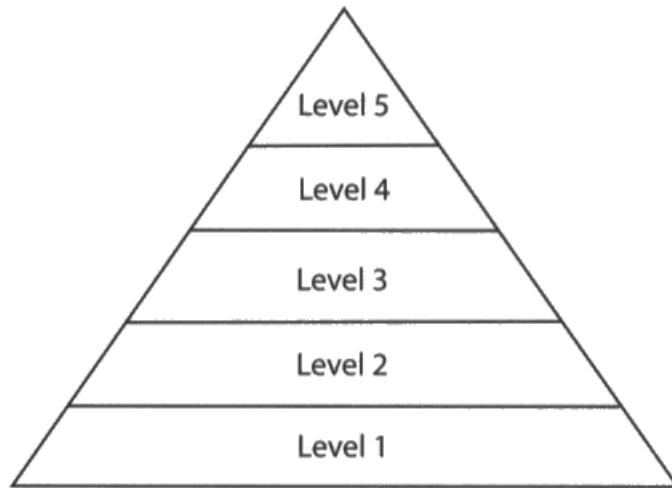


Figure 1

Which need is represented by Level 5?

Select **one** answer.

(1) 1

- A Self-actualisation
- B Security
- C Physical
- D Esteem

(b) Identify **one** possible barrier to effective communication.

(1) 1 Q01b

Workers have to work in set areas and the wrong section of skilled workers are in the same workplace area - Can't emotionally deal with bus. Unclear instructions by the senior manager so the bus isn't done properly.



(c) Explain **one** impact of insufficient communication on a business.

(3)2 Q01c

Workers will most likely not know what they are set out to do in a task. This means productivity will be decreased so less products being made. As a result, there will be a decrease in items sold.

(d) Explain **one** benefit to a business of using a decentralised organisational structure.

(3)3 Q01d

The head who manages the workers will be able to vertically communicate with workers lower in the hierarchy. So, workers are given a sense of authority by being given tasks that relate to them. Therefore, effective productivity and communication will be high.

(Total for Question 1 = 8 marks) **7**



2



*Soap and Glory* is a cosmetics company founded in the UK in 2006 by Marcia Kilgore. Some of its best-selling cosmetic products have unusual names such as Ace of Base and The Fill Monty. The company targets women who are looking for high quality make-up, such as lipstick and mascara. *Soap and Glory* competes against rival businesses such as *L'Oreal*.

(Source: adapted from <http://www.entrepreneur.com/article/222602> accessed on 28/11/14)

(a) *Soap and Glory* uses unusual names for its cosmetics, such as 'Ace of Base'. This is an example of:

Select **one** answer.

- A stock control
- B customer service
- C quality control
- D differentiation

(1) 1

(b) Outline **one** reason why *Soap and Glory* may decide to use product trials.

(2) 1 Q02b

This will be effective for their marketing to see if consumers will want to buy the product. Thus, meaning they may be able to check if their soaps need to be altered or improved to meet customer's satisfaction.

4



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Soap and Glory has a strong brand name in the cosmetics market.

(c) Explain **one** advantage to Soap and Glory of having a strong brand name.

132 Q02c

They will have good recognition around parts of the world as they have a unique differentiation over competition like Fairy Liquid. This means more customers will value it as an established business, thus creating more awareness. As a result, you are more likely to gain higher sales and repeat purchases. They will have a good reputation.

Soap and Glory uses high levels of promotion to maintain its competitiveness.

(d) Describe how high levels of promotion could have a negative impact on Soap and Glory.

144 Q02d

They may be advertising too much which could affect being able to pay other parts of the marketing mix, such as the product. If the advertising is too high less will be spent on adding value to the product and may leave the business in debt. Therefore, they may end up with ~~negative~~ negative cash flow, thus possible losses as they promoted the 'Ace of Base' products too much. Competitors may take advantage of this so L'Oréal may see where they have gone wrong and leave positives for the competition.

(Total for Question 2 = 10 marks)

8



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3



*Hornby plc* produce model railway sets for adults and children. Demand for model railway sets is decreasing as children switch to different toys. *Hornby* has responded to this by launching a new range with more modern trains. The company has also reduced its reliance on retailers and now sells direct to customers through its website. Despite these changes, *Hornby* suffered negative cash flow during the last three months of 2013. Its debt also increased to £6.5 million.

(Source: adapted from <http://www.ft.com/cms/s/0/5d1f9dba-bf31-11e3-b924-00144feabdc0.html#axzz33JUT3rW3> and [www.hornby.com](http://www.hornby.com) accessed on 28/5/14)

(a) Which of the following is the **best** description of negative cash flow?

Select **one** answer.

- ~~A~~ Cash inflow exceeds cash outflow
- ~~B~~ Revenue is greater than costs
- C Cash outflow exceeds cash inflow
- ~~D~~ Costs are greater than revenue

(1) 1

(b) Identify **three** methods *Hornby* could use to improve its cash flow.

(3) 2 Q03b

- 1 Wider product range.
- 2 Lower the variable costs eg. raw materials.
- 3 Increase the selling price of products.  
Lower worker's wages.



(c) Explain **one** benefit to Hornby of using its website to sell direct to customers.

(30) Q03c

By selling model toys online it means customers will be impressed with the availability of wide ranges of customer service. As the online market is growing, selling toys online will make the majority of customers satisfied with the distribution of service. So, you will gain repeat purchases and customer loyalty and as a result higher profit margins.

(d) Explain **one** disadvantage to Hornby from having large amounts of debt.

(32) Q03d

Not being able to repay bank loans when it's due will result in negative cash flow and will put more pressure on you to pay it. Therefore, the business won't be able to pay costs well and could lead to making a severe loss compared to breaking even. <sup>of high raw material costs.</sup> As a result, the business may be made redundant and will be forced to close. Thus, meaning <sup>less</sup> ~~more~~ opposition for competitors ~~in~~ in the toy train market which they can exploit.

(Total for Question 3 = 10 marks) **5**



4

# dyson



Dyson manufacture vacuum cleaners, hand driers and fans. It has a reputation for producing high-quality innovative products. *Dyson's* most recent vacuum cleaner, the DC54, has a digital motor and requires no filter. This has allowed *Dyson* to manufacture vacuum cleaners which are lighter, smaller and more effective than its competitors, *Hoover* and *VAX*.

(Source: adapted from <http://www.dyson.co.uk/vacuum-cleaners/cylinder/dc54.aspx> accessed on 28/5/14)

Dyson has invested £50 million in a digital motor factory in Singapore. It funded this investment using external sources of finance.

(a) Which of the following is an external source of finance?

Select **one** answer.

(1) 1

- ~~A~~ Retained profit
- ~~B~~ Selling assets
- ~~C~~ Sales revenue
- D Share capital

The Singapore Government has given *Dyson* an export subsidy.

(b) Outline **one** possible impact on *Dyson* of the export subsidy.

(2) 0 Q04b

This will mean there will be limitations as to what they can exchange in terms of vacuums in other countries. So, the company will only be able to export/import a maximum amount of items, thus giving more authority of stock holding and knowing what to do with it.





(c) Explain **one** benefit to *Dyson* from being able to manufacture 'lighter, smaller and more effective' vacuum cleaners.

(3) Q04c

This gives Dyson a competitive advantage over companies like Hoover and VAX because they have a USP that adds to their differentiation. So, more consumers are likely to buy the product because of its quality, thus increasing their sales and customers loyalty to the brand and a profit.



The product life cycle of a vacuum cleaner, such as the DC54, can be very short.

(d) In order to extend the product life cycle of its DC54 vacuum cleaner, Dyson considered the following two options:

**Option 1:** Increase promotion

**Option 2:** Improve the product.

Which of these two options do you think would be more effective in allowing Dyson to extend the product life cycle of its DC54 vacuum cleaner? Justify your answer.

(6) 5 Q04d

Improving the product means the business can be more effective in meeting customers needs and wants in the market. This means that customers will be satisfied with the vacuum and could attract more customers from competitors like Hoover. Therefore, increasing sales revenue, profit and customer loyalty.

On the other hand, improving with promotion such as advertisement increase will possibly make the business more viral and have more awareness. So, people will be more recognised and have more chances of using the product, as its more broadly distributed through marketing phases.

This may depend on both if the business has enough money available to purchase and increase promotion and money may be lost exceedingly through the research stage at the beginning of the cycle.

(Total for Question 4 = 12 marks)

9

TOTAL FOR SECTION A = 40 MARKS



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## SECTION B

Answer ALL the questions. You should spend 30 minutes on this section.

Read the following passage carefully and then answer questions 5 and 6.



*Travelodge* is the UK's second largest budget hotel group behind *Premier Inn*. Its hotel rooms sell for anything between £19 and £200 per night. In 2013, the company announced that it would spend £223 million to improve its existing hotels. The company used qualitative market research data from customers to help redesign its rooms. Each room now includes an improved work area and a more comfortable bed. Qualitative market research also highlighted the need for *Travelodge* to improve its customer service.

*Travelodge* plans to expand by opening a further 14 new hotels during 2013. Some of them will be constructed using recycled metal shipping containers. This method of construction was successfully used to build the 120-room Uxbridge *Travelodge*. This hotel was completed 60% faster and 10% cheaper compared to traditional methods of hotel construction. It is hoped that this method of construction could limit the impact of *Travelodge's* expansion on the environment.

(Source: adapted from <http://hotelandloyaltynews.com/travelodge-continues-roll-out-of-new-bedroom-design/> and <http://inhabitat.com/travelodge-shipping-container-hotel/> accessed on 28/5/14)

5 (a) What is meant by the term **qualitative market research**?

(2) 2 Q05a

This is gathering information from people as judgements, opinions and views. This can help a business alter a product and see if the public like an item and if it can be improved.



(b) Identify **one** method *Travelodge* could use to improve its customer service.

(11) Q05b

Better training of staff so they can meet any customer's expectations quicker.

(c) Explain **one** impact on the environment of *Travelodge's* decision to build hotels using recycled materials.

(31) Q05c

Using recycled materials like metal containers means the company is using or promoting less waste and pollution in favour of saving the environment. Therefore, they will be seen doing a positive ethical decision so will gain people's respect. Thus, the business may get a strong brand image/reputation which leads to more sales of room stays.



Travelodge pays its hotel managers a salary.

- (d) State **one** advantage and **one** disadvantage to *Travelodge* from its decision to remunerate its hotel managers using a salary. For each, explain the likely effect on *Travelodge*.

(8) 6 Q05d

Advantage

Higher productivity

Explanation

Workers will be more motivated in their tasks in hand so will get jobs done easier as they feel valued for being paid well. Thus, increasing the amount of accommodations and beds being made quicker. Therefore, Travelodge will get more sales made and a good working environment with lower costs. Increases their reputation.



Disadvantage

May lack self-esteem by not being given more benefits eg. fringe.

Explanation

Workers could be left not motivated because they are only paid the same amount as what they are paid each month permanently. Therefore, productivity may decrease so less accommodations are made. Jobs won't be done effectively and may lead to negative cash flow as of lower sales so a loss.

(Total for Question 5 = 14 marks) **10**



P 4 6 5 2 4 A 0 1 5 2 4

6 In 2013, the Uxbridge Travelodge had a margin of safety of 1,400 rooms.

(a) What is meant by the term **margin of safety**?

(2) 1 Q06a

The ~~section~~ <sup>break</sup> ~~needs~~ <sup>break</sup> ~~break-even~~ <sup>so</sup> costs and revenue need closely and they can afford to be there without fear of making a loss.

The Uxbridge Travelodge has annual fixed costs of £100 000. The selling price of a room is £50 per night and the variable cost of a room is £10 per night.

(b) (i) Calculate how many hotel rooms had to be sold in 2013 for the Uxbridge Travelodge to break-even. Show your workings and the formula used.

(3) 3 Q06bi

$$\text{Break-even} = \text{FC} \div (\text{contribution})$$

$$\begin{aligned} \text{Contribution} &= \text{Sp per} - \text{Vc per} \\ &= £50 - £10 \Rightarrow £40 \end{aligned}$$

$$\text{Break-even} = \frac{£100,000}{£40} \Rightarrow 2,500 \text{ hotel rooms.}$$

During 2013, the Uxbridge Travelodge sold 3,900 rooms.

(ii) Calculate the profit of the hotel in 2013. Show your workings and the formula used.

(3) 1 Q06bii

$$\text{Profit} = \text{Sales revenue} - \text{costs}$$

$$\text{SR} = P \times Q \Rightarrow £50 \times 3,900 \Rightarrow £195,000$$

$$\begin{aligned} \text{TC} &= \text{FC} + \text{VC} \Rightarrow £100,000 + (\text{Vc per} \times Q = 3,900 \times £10) \\ &\Rightarrow £100,000 + £39,000 \Rightarrow £139,000 \end{aligned}$$

$$\text{Profit} = £195,000 - £139,000$$

$$\text{Profit made} = £56,000$$

$$\text{Profit} = £195,000 - 39,000 \Rightarrow £156,000$$





\*c) Assess the usefulness of break-even analysis to a hotel company, such as Travelodge.

184 Q06c

This means Travelodge can visualise in their projections of how many rooms they need to make sure they reach the margin of safety. This means they can accurately see whether they have to lower costs or could even lower the selling price to help meet the target intended. Travelodge will then be able to use this analysis to help alter the product quality by adding value to it. In this case, they could evaluate if they should improve customer service by adding more trained staff or improving bed quality to make customers more satisfied. Ultimately, the difference in charts compared to competitors like Premier Inn might be different. The key is to judge if they need to lower costs next month to meet their target, so a more believable projection is conducted the following month.

(Total for Question 6 = 16 marks) **9**

**TOTAL FOR SECTION B = 30 MARKS**



P 4 6 5 2 4 A 0 1 7 2 4

## SECTION C

Answer ALL questions. You should spend 20 minutes on this section.

Read the following passage carefully and then answer questions 7 to 10.



Zara is a clothing retailer owned by the Spanish company *Inditex*. Zara operates stores in almost every country in Europe, Asia and the Americas. Zara is unusual compared to its main competitors, *H&M* and *Gap*, in that it produces more than half of its own clothes. Rivals, such as *H&M*, own no factories, and Zara believes that controlling the process of making and selling clothing gives it a competitive edge. Having its own factories allows Zara to operate a Just in Time (JIT) method of stock control. This is because Zara can design a collection of clothes and produce them within five weeks, whereas competitors, who rely on independent suppliers, can take as long as nine months. Zara also re-supplies each of its stores twice a week and it estimates that an item of clothing rarely stays on its shelves for longer than one week. With fashion continually changing, Zara has the ability to quickly react to new trends.

In 2012, Zara was targeted by pressure group *Greenpeace* as part of its 'Detox your fashion' campaign. *Greenpeace* wanted clothing producers, such as Zara, to use environmentally friendly dyes during fabric production and improve the health and safety record in its factories. During the campaign the words 'Zara' and 'Detox' were mentioned on social media over 43,000 times.

(Source: © Greenpeace)

(Source: adapted from [http://www.kellogg.northwestern.edu/course/opns430/modules/supply\\_chain\\_management/Zara.pdf](http://www.kellogg.northwestern.edu/course/opns430/modules/supply_chain_management/Zara.pdf) and <http://www.greenpeace.org/international/en/news/features/Zara-commits-to-go-toxic-free/> accessed on 28/5/14) <http://www.brentcross.co.uk/shops/fashion/zara>)



7 What is meant by the term **pressure group**?

2 Q07

A small organisation set up to try and alter people's behaviour about the business. This relates to ethical issues eg. pollution, and less waste.

(Total for Question 7 = 2 marks) **2**

8 Outline **one** impact on *Zara* from improving the health and safety record in its factories.

2 Q08

This will increase the company's reputation so customers are likely to go there. If they don't like it then they won't be happy. The business will be seen as being focused on providing the best outcome of their clothing eg. shirts. They will have a better brand image so will get repeat purchase and more customer loyalty. Thus, more customer satisfaction.

(Total for Question 8 = 2 marks) **2**



P 4 6 5 2 4 A 0 1 9 2 4

\*9 Discuss the benefits to Zara from improving its ethical behaviour.

4 Q09

These include customer's being more satisfied with the business focus and by using more environmentally friendly dyes they will have a better brand image. Therefore, Zara will be seen as a better business so customers will attract to them over competitors who lose out eg. Gap. Therefore, Zara are more likely to gain repeat purchase and customer loyalty.

In addition to this, Zara will be ~~less likely~~ less affected by pressure groups who try to damage the brand image and criticise their actions. As Zara try to add better clothing and add more dye to fabrics they will get a better image of brand. Thus, meaning they have another selling point that differentiates from H&M and Gap and relieves pressure from groups like Greenpeace. This will make them a better reputed business.

(Total for Question 9 = 6 marks)

4



\*10 Using your knowledge of business, assess the importance of Just In Time (JIT) stock control in helping Zara to remain competitive.

5 Q10

Just in time stock control systems enable clothing markets with businesses like Zara the capability to reach unexpected surges in demand of clothing like the summer range of shorts and flip-flops. This means Zara have the ability to meet more customer's needs in an ever-changing market by meeting stock level requirements as they are all gone off the shelf after one week. Therefore, as Gap and other retailers can't efficiently meet the customer's demands until about nine weeks so are more effective in making customers satisfied than Gap can at being able to react to new clothing trends.

~~Furthermore, Zara can also~~



P 4 6 5 2 4 A 0 2 1 2 4

(Total for Question 10 = 10 marks) **5**

**TOTAL FOR SECTION C = 20 MARKS**  
**TOTAL FOR PAPER = 90 MARKS**



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