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**Pearson
Edexcel GCSE**

Centre Number

4 2 1 3 5

Candidate Number

4 1 2 3

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

70 70

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.

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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.

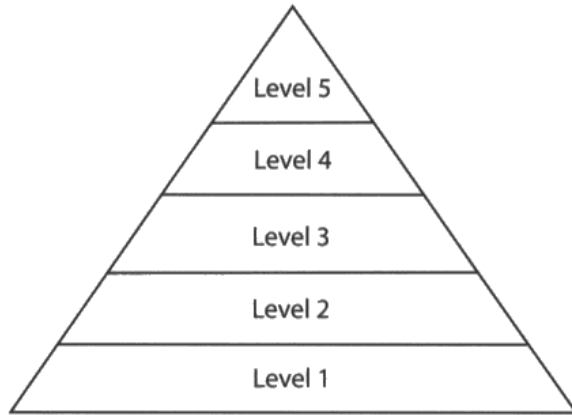


Figure 1

Which need is represented by Level 5?

Select **one** answer.

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

(1)



Q01a

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

(1)



Q01b

Distance between people communicating



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

(3) B ✓

3 Q01c

If a business has insufficient communication it could lead to problems such as misunderstanding and confusion. If the business doesn't clearly communicate then employees will complete tasks wrongly or do the ~~same~~ wrong thing. It could then be expensive for the business to address these problems from the wrong things being done.

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

(2) ✓

2 Q01d

A benefit is that each part of the business will be organised separately. This means that it is easier for the business to solve potential specific department problems without affecting all other sectors. Being able to individually manage departments will ensure that they run better and are consequently more efficient.

(Total for Question 1 = 8 marks)

7 7





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 ✓

1 Q02a

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

(2) 2 ✓

2 Q02b

If they are unsure as to how popular a new box of Soap will be, they can trial it to get an idea of if it will sell. This can save them money as they know they will ^{not} be spending money producing a product that will not generate a lot of sales revenue.



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.

Having a strong brand name is beneficial as it will help them attract more customers. Customers will opt to go to Soap and Glory rather than L'Oréal as they know that the brand is well liked and developed. This gives them a competitive advantage and can lead to having repeat purchases consequently increasing revenue.

33



3

Q02c

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.

To maintain high levels of promotion for extended periods it is very expensive. Their budget for product development may fall because giving an advantage to their competitors such as L'Oréal. Another negative impact could ~~potentially~~ potentially be key cutting of the store due to awareness of adverts. This has happened with businesses such as 'Gocamp' and could happen to Soap and Glory. Therefore no one would buy their soap and sponges and they would suffer large financial loss.

43



3

Q02d

(Total for Question 2 = 10 marks)

9

9



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5

Turn over ▶

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 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) ✓ Q03a

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

(3) ✓ Q03b

- 1 Overdraft
- 2 bank loan
- 3 Share capital

6



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

33



3

Q03c

By selling their products such as model trains themselves, Hornby can ~~lose~~ gain more revenue as there is no retailer taking as a middle man and needed a share of the sale. Hornby would generate more revenue which would give them more capital to release new products and expand.

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

33



3

Q03d

A disadvantage is the high amounts of interest that they have to pay on the debt. A lot of Hornby's cash inflows will be balanced out by the outflow of interest. This means that they have less money to spend developing new toy trains and could lose market share to a competitor such as Lego.

(Total for Question 3 = 10 marks)

8

8

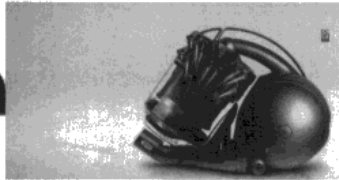


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7

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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.

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

(1) Q04a

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

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

(2) Q04b

The export subsidy will limit the amount of houses & that Dysons can export which could potentially limit sales and revenue.



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

3



3

Q04c

Being able to manufacture these new & vacuum cleaners gives Dyson a USP. This unique selling point could help persuade customers to buy a Dyson Hoover rather than a competitor such as Henry's. This will improve market share and consequently improve sales revenue which could lead to a higher level of profit.



P 4 6 5 2 4 A 0 9 2 4

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



5

Q04d

Increasing promotion would work well to attract more people who do not already have a Dyson. They may be persuaded to buy one. It would be pretty expensive though and wouldn't appeal to customers who had already bought a Dyson hoover.

Improving the product is a good idea as even people who already own a DC54 hoover may be persuaded to purchase a newer model. It will also make them more competitive as buying a new hoover would damage a competitor like Hoover's sales.

I think that option 2 is the best as it will help market grow and appeal to a larger amount of customers ~~to~~ however it will be expensive. If the business could afford it then option 1 is still a viable idea.

(Total for Question 4 = 12 marks)

9

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)



Q05a

Data collected that is in word form for
example opinions.



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

11



1

Q05b

Provide Staff Training.

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

32



2

Q05c

An impact will be less waste. By using recycled materials, *Travelodge* can make use of previous supplies rather than letting them be wasted and they will not require factories to make their parts, lowering emissions. *Travelodge* could also inspire competitors like previous ones to be more environmentally friendly to not lose out on ethical customers.



P 4 6 5 2 4 A 0 1 3 2 4

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



6

Q05d

Advantage

They do not have to pay for overtime.

Explanation

By paying workers a salary *Travelodge* does not have to pay workers when they do overtime. This could prove beneficial to their cash flows as they do not have random increases and decreases in wage outlays making cash flow forecasts and analysis easier.



Disadvantage

workers have fixed hour contracts.

Explanation

Salvaged workers only work a set hour of workers a week and have no obligations to work overtime. This could be bad for knowledge if they have a ~~to~~ shortage of workers in a long period as employees do not have to work extra hours.

(Total for Question 5 = 14 marks)

11

11



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) 2



2

Q06a

The amount of products a business needs to sell to break even and be in profit. The distance between break even ^{amount} and expected output.

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



3

Q06bi

Contribution = selling price - variable cost. $50 - 10 = 40$
break even = Fixed costs ÷ contribution

$$100,000 \div 40 = \underline{2500 \text{ rooms}}$$

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) 3



3

Q06bii

Break even = 2500 rooms
profit per room = selling price - variable cost = ~~40~~ $50 - 10 = 40$

$$3900 - 2500 = 1400 \quad 1400 \times 40 = 56000$$

£56,000



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

83



3

Q06c

A benefit to breakeven analysis is that Travelodge can generate expected profit figures as they know the expected amount of customers. This allows Travelodge to spend their money on new items such as beds better as they have the expected income.

A disadvantage is that if any costs or prices change, all of the numbers and figures that the business has done will change and no longer be relevant.

Another disadvantage is that the analysis may lead Travelodge to believe that they have a lot of money to spend but if business does not go well they could be left in debt.

A final positive is the ability to adjust pricing based on the number of units that need to be sold. Travelodge can find the optimum level of room price.

(Total for Question 6 = 16 marks) 11 11

TOTAL FOR SECTION B = 30 MARKS



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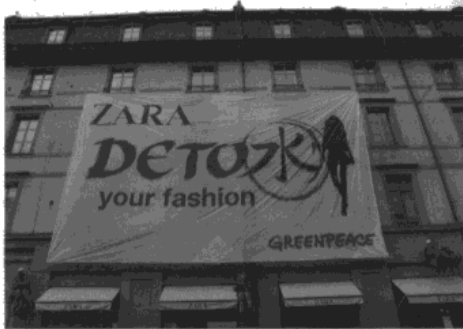
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SECTION C

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 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



2

Q07

A group of people who publicly call out a business for something that it is doing in hope that they can pressure them to change.

(Total for Question 7 = 2 marks)

2

2

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

2



2

Q08

Staff will be happier and will therefore work more efficiently. This could lead to an increase in the time taken to produce clothes.

(Total for Question 8 = 2 marks)

2

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



4

Q09

A benefit of improved ethical behaviour would be a potential marketing campaign. Zara could establish its name as an ethical brand and consequently cause ~~to~~ customers to come to them rather ~~than~~ than competitors such as H&M because they are attracted by the good nature of the business.

Another benefit would be the relief of pressure groups. In fact pressure groups are attacking Zara for its unethical ways, competitors are benefiting because customers do not want to be associated with an unethical brand. If ~~the~~ ~~Zara~~ Zara changed to be more ethical the pressure groups would be off of them allowing a sales of things like t-shirts and shoes to rise again.

(Total for Question 9 = 6 marks)

4

4



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

7



7

Q10

Just in Time Stock control is a key in helping Zara stay competitive in the fashion business. With new trends frequently being released it is imperative that Zara stocks the newest products which Just in Time stock allows them to do. They have a competitive advantage because of this as competitors such as Topshop cannot stock as new trends until they get a large stock delivery which may not be for a while.

This method of stock also allows Zara to run out of products which gives them another competitive advantage. When competitors such as H&M run out of products like a new top they have to wait months for new stock, whilst Zara only needs to wait a matter of days. Due to this, if a competitor is out of stock then customers will come to Zara and potentially become repeat purchasers increasing market share and revenue.

Overall, Just in Time stock control is one of the most important factors in keeping Zara competitive and in helping them stay better



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their competitors.

(Total for Question 10 = 10 marks)

7

7

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



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