



GCE AS – **NEW AS**

B510U10-1



S16-B510U10-1

**BUSINESS – Component 1**  
**Business Opportunities**

P.M. THURSDAY, 19 May 2016

1 hour

| For Examiner's use only |              |              |
|-------------------------|--------------|--------------|
| Question                | Maximum Mark | Mark Awarded |
| 1.                      | 10           | 9            |
| 2.                      | 16           | 15           |
| 3.                      | 10           | 9            |
| 4.                      | 14           | 11           |
| <b>Total</b>            | <b>50</b>    | <b>44</b>    |

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**ADDITIONAL MATERIALS**

In addition to this paper you may require a calculator.

**INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Write your answers in the spaces provided in this booklet.

If you run out of space, use the continuation page at the back of the booklet, taking care to number the question(s) correctly.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the necessity for good English and orderly presentation in your answers.

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

### 1. Cakes by Dominic



Dominic has been helping his grandmother run a small-scale business from her home making celebration cakes for special occasions such as birthdays and weddings. She helped him develop his cake-making skills which he further improved by completing a catering course at a local college.

His grandmother wants to retire and let Dominic take over the business as Dominic has always wanted to become an **entrepreneur**. He is very passionate about what he does and is grateful to her as there are very few job opportunities in the area. He has recently inherited a large sum of money from another relative and wants to expand the business by setting up a small cake shop in his local town centre which is busy with local trade. Apart from a small local bakery, there is no other competition in the area that specialises in celebration cakes. Dominic is very optimistic about the future success of the business and hopes that his initial investment will give a good return.

(a) Outline **two** motives Dominic might have for wanting to become an *entrepreneur*. [4]

To gain personal satisfaction/enjoyment from a line of work he "is very passionate about" - he will enjoy doing this job/being an entrepreneur in this industry.

He wants to fill a gap in his local market by providing products that are not really offered in his area. We are told there is little competition in the celebration cakes industry in his area. Therefore he is filling a gap in the market which is typical of an entrepreneur.

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- (b) Suggest **two** factors that Dominic may have taken into account when deciding where to locate his cake shop **and** explain the effects these will have on his business. [6]

One factor Dominic will have considered when deciding where to locate his shop will have been the price of the land/rent of the premises he is interested in. In the case we are told he would ideally like to set up his business in the "local town centre" which will no doubt incur a greater cost to the business than if he were to set up outside of the town centre. If he chooses to set up in the town centre his start up costs will be higher due to the higher price and therefore he will have to sell more cakes in order to break even or make profits in his first trading year.

Another factor he will have to consider will be the wealth of the area he lives in / how nice the area is. For example if this particular town is wealthy, the residents may be more inclined to use a specialised business such as Dominic's. Whereas if it was not a wealthy area people may look for cheaper alternatives. The level of crime in the area will also affect where Dominic places his business as he may be subject to vandalism or theft. The wealth of the area will determine the level of demand for his cakes and therefore give him access to greater profits.

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## 2. Serendipity Ltd

Joy Daniels heads Serendipity Ltd, an established medium-sized retail business that sells high-end outdoor clothing and equipment. The business seeks to emphasise quality as well as respect for the environment. The company has 20 outlets in cities across the UK and also trades online.

Joy wishes to expand her business and believes she needs to take greater advantage of market segmentation. She intends to introduce new specialist ranges for women and children as well as looking at other sports such as cycling, sailing and skiing. She is also considering turning the company into a public limited company by floating it on the Stock Exchange.

- (a) (i) Explain the meaning of the term *market segmentation*. [2]

Market segmentation is the splitting up of the population into different categories such as geographics, demographics and psychographics.

Market segmentation helps identify a specific target market which a product is most applicable to.

- (ii) Evaluate the importance of *market segmentation* to Serendipity Ltd and its customers. [6]

Market segmentation will be important to Serendipity because it will help the business narrow in on a particular target market and therefore aid the marketing and promotion processes. Conducting a market segmentation activity will allow the business to market the product to a more specific audience and will therefore give the opportunity of greater profits. However market segmentation will not take into account any sharp changes in tastes so Joy may find that she is marketing her clothing to the <sup>wrong</sup> gender for example. This will result in a greater cost to the business.

Market segmentation is important to consumers because they are marketed the product they are interested in at a price they are willing and able to pay. Market segmentation involves some kind of market research by the firm, so they will know what consumers want. The process of market segmentation gives consumers the information necessary through promotions to make a purchase.

However other factors such as price and quality are important to consumers when it comes to making purchasing decisions: more so than information availability.

(b) Discuss whether or not Serendipity Ltd should become a public limited company (PLC).

[8]

Serendipity should become a ~~private~~ public limited company because it will give them greater access to external sources of finance through the sales of shares to the public. This greater level of finance will mean more research and development, new products can ~~take~~ take place and new products can be launched with more ease. This will give the opportunity of greater profits to the firm in the long run. However they should not become a public limited company because all accounts must be published to the company which could damage the firm's reputation if finances are poor.

Another benefit of becoming a public limited company is that they are usually large, which Serendipity is with "20 outlets" - being a large company gives a greater opportunity to benefit from economies of scale through bulk buying and therefore will reduce costs. This will allow for greater profits at the firm. However another drawback to becoming a PLC is that Jay may suffer a loss of control of her business due to external influences from public shareholders.

Serendipity should become a public limited company because ~~she~~ they will be able to raise large amounts of capital which will also reduce long run costs in the production process. They are able to raise large amounts of capital due to the large interest from external sources of finance such as public shares and bank loans. However a final drawback to becoming a PLC is that up costs are huge due to the vast amount of capital and labour needed to achieve higher levels of output. This raises the break-even price and output.

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### 3. Soaps by Maria

Maria started a business two years ago in her kitchen making handmade soaps using organic materials. At first Maria had little experience of running a business but now her products have become very popular in this **niche market**.

Maria's organic soaps sell for £5 a bar. She estimates that her fixed costs for the year will be £1000 and variable cost will be £2.50 per bar. She plans to produce and sell 1000 bars.

(a) Explain the meaning of the term *niche market*. [2]

A niche market is a small market that sells one specific product. There are a limited number of competitors and customers and the prices charged are usually high.

(b) Use the information above to calculate the:

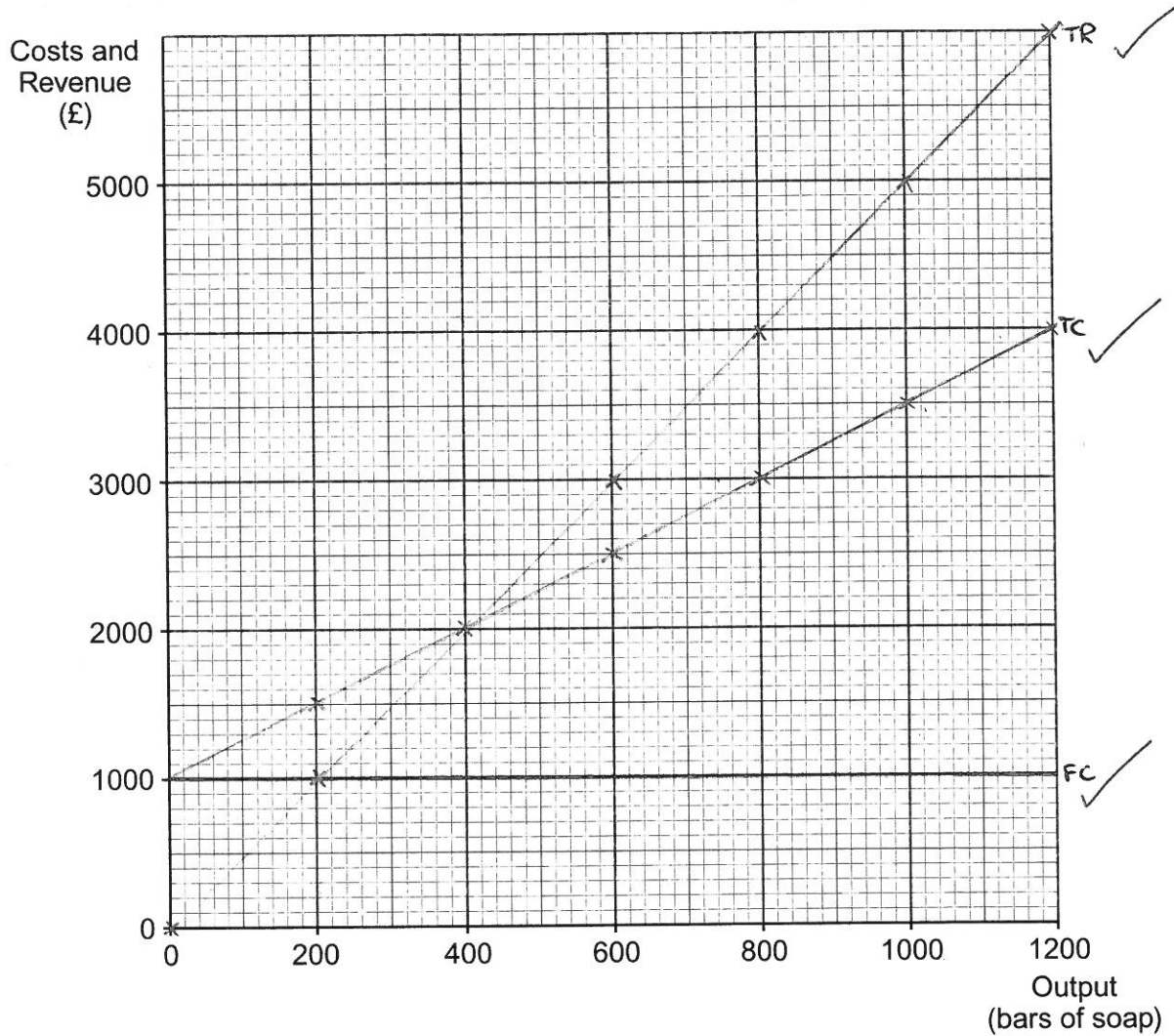
- (i) Fixed Cost if output is 1000 [1]
- (ii) Variable Cost if output is 1000 [1]
- (iii) Total Cost if output is 0 [1]
- (iv) Total Revenue if output is 600 [1]

Write your answers in the correct spaces in the table below:

| Output        | 0                | 600             | 1000            |
|---------------|------------------|-----------------|-----------------|
| Fixed Cost    | £1000            | £1000           | (i)<br>£1000 ✓  |
| Variable Cost | £0               | £1500           | (ii)<br>£2500 ✓ |
| Total Cost    | (iii)<br>£1000 ✓ | £2500           | £3500           |
| Total Revenue | £0               | (iv)<br>£3000 ✓ | £5000           |

(c) Construct and label a break-even chart on the graph paper below. [3]

Break-even chart of Maria's Soaps



(d) How many bars of soap would need to be sold to break-even? [1]

400 bars. ✓

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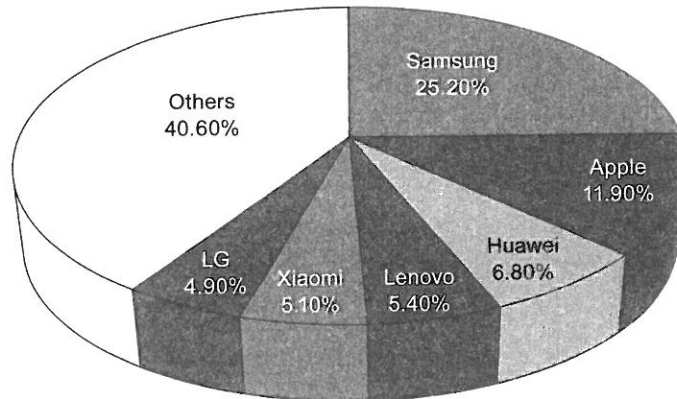
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4. The market for smartphones is an **oligopoly**. At the beginning of 2012, 23% of smartphones sold worldwide were Apple iPhones but this figure fell to 11.9% at the start of 2014. Samsung, one of its rivals, was the leading mobile phone manufacturer in 2014, holding a market share of just over 25%. One reason for Samsung's success is that it conducts a great deal of **primary** and **secondary market research**.

**Global Smartphone Market Share  
(Q2 2014)**



- (a) Explain what is meant by the term *oligopoly*. [2]

Oligopoly is where a few large firms dominate an industry such as the 'big four' in the supermarket industry: Tesco, Sainsbury, Asda and Morrisons.

- (b) Distinguish between *primary* and *secondary market research* using appropriate examples. [4]

Primary research is where the data gathered did not exist before it was obtained. The data will be personally gathered by staff on behalf of a firm. For example staff in a <sup>restaurant</sup> book's fast shop will ask customers to fill out a questionnaire on how they think the products could be improved. However secondary research is where the data gathered already existed and had been obtained by another source. An example of secondary research is internet searches for the popularity of paper back books vs hard back books in the book industry.



- (c) Discuss the view that *primary research* is always likely to be of greater advantage to a business than *secondary research*. [8]

Primary research is of a greater advantage to a business than secondary research because the data gathered will be more specific to the business conducting the research. For example qualitative research regarding the standard of customer service of a furniture shop will leave specific improvements for the business e.g. staff need to be better at operating the computer system. Therefore businesses can act upon this data and improve the standard of customer service for other customers. However it could be argued that primary research is not that advantageous because staff will choose who they ask for improvements which will mean the data gathered is biased. Whereas using secondary research the results may be less biased because the business don't know who has been asked.

It may be argued that secondary research is of a greater advantage to a firm because it saves both time and money. Most secondary research can be done for free on the internet and useful information is made quickly available on the internet too. This means that more of the business time and money can be put into generating sales and therefore earn greater profits. However it could be argued that secondary research is not totally specific to the business conducting the research and therefore cannot be acted upon effectively whereas primary research is always specific.

Primary research is more advantageous to a firm because the data gathered is likely to be fresh and new. This means that these are current issues with the business which can be acted upon quickly in order to improve the operations of the business in the short term. This means that it is more advantageous than secondary research because secondary data is often old and no longer relevant. This is especially the case with data found online.

END OF PAPER

For continuation only.

4c) To conclude I think it is more advantageous to use primary research because the data is fresh and relevant and can therefore be acted upon effectively whereas secondary research is old and not always specific which will not help the firm make improvements.

2b) To conclude I think the firm should stay as a private limited company because Joy can still raise finance through selling shares to friends and family whilst remaining in control of the business. I understand the financial benefits of becoming a PLC may be greater but in this case I think there are almost equal benefits to be gained whilst remaining as an LTD. MT