

Surname	Centre Number	Candidate Number
Other Names	64395	2



GCE AS

B510U10-1



BUSINESS – AS component 1
Business Opportunities

FRIDAY, 18 MAY 2018 – AFTERNOON

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	16	✓ 15
2.	10	✓ 8
3.	8	✓ 8
4.	16	✓ 16
Total	50	✓ 47

ADDITIONAL MATERIALS

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. Sebastian is an **entrepreneur** who runs his own business designing and selling custom-made jewellery boxes. In order to pursue his dream he gave up his full time job and is now committed to working long hours in order to achieve his goals. He has also invested all his savings to help run his small business.

Sebastian plans to approach his bank manager for a loan to help with expanding his enterprise. A friend has suggested that, as well as seeking professional advice, he should produce a **business plan** in order to ensure the success of his business venture.

- (a) Apart from the bank, identify **two** sources of information or guidance available to a business start-up such as Sebastian's. [2]

- government publications on business performance
- The internet / news articles on the subject

- (b) Outline ways in which Sebastian demonstrates the typical characteristics of an entrepreneur. [4]

Sebastian shows characteristics of entrepreneurship as he is committed to starting the firm by leaving his job, he shows ability to take risks as he willingly uses his savings to finance the project. Sebastian shows initiative and perseverance by seeking guidance, this is shown as he is pushing to get his business off the ground by producing a plan from their ~~help~~ suggestion.

High taking / commitment - leaving job
- investing savings
Initiative - seeking help
perseverance

A01 2/

A02 2/

4/

Business plan ^{+ve}
 -ve/
 Unnawate

- ② service
- ① spot problems with business
- ③ helps draw forecasts

+ve be - the structure
 - startup quick
 - must be accurate

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(c) To what extent is a business plan critical to the success of a new business? [10]

A business plan is critical to success for several reasons, firstly, A business plan allows the owner to spot the flaws of a business, a business plan looks at every aspect of the firm, meaning if expertise is needed or adjustments are required they can easily be spotted. A business plan will help a firm gain financial support, banks or venture capitalists will want to see how the business develops over time and if they feel it's a secure investment, Lenders will not be willing to help if they do not know the key aspects to a firm, making a plan important. A well constituted business plan will contain information on financial forecasts, these will show when the firm aims to make profit (Break even analysis), what the firm's targets and outputs of cash should be and if the business will make consistent profit or losses.

This will encourage financial aid and give the owner a rough expectation of how much money is available at any time in the start up period. However, business plans may be ~~rather~~ invalid if the firm's predictions are inaccurate, many owners over-estimate revenue and under-estimate costs, if this happens, the plan is misleading and does not result in success as they may not be able to make payments/over spend day-to-day costs. To summarise, a firm should

create a plan as it gives rough structure and opportunities for investment and quick start up time, however owners must make every possible precaution their data/predictions are accurate.

Market research - helps you understand taste
- competition

partner \leftarrow shared resource
 \leftarrow better finance
 \leftarrow disputes
 \leftarrow unlimited liability

4

2. Nigel, a successful sole trader in the retail trade, is seeking to expand his business by forming a **partnership** with Samaira, a golfing professional and friend. Nigel already owns and runs a shop selling men's clothing and wants to diversify by opening a second shop selling golf equipment which, because of Samaira's golfing expertise, he hopes Samaira will run and manage.

Examiner
only

The new golf shop will be situated at a different location from his current shop and Samaira has suggested that they carry out some **market research** to assess the level of demand for golf equipment in the area.

- (a) Explain **two** benefits to a business of using market research.

[4]

Market research will help a business as it allows them to understand consumer preference, this means entrepreneurs like Nigel can produce goods that the market will buy and the firm will profit off. Market research can help a firm understand their potential cash flow and sales, by using the research they can see how many units they can expect to sell in the first ~~time~~ chosen time period, this will allow for better management of finance.

- (b) Suggest and explain **two** advantages and **two** disadvantages to Nigel and Samaira of setting up as a partnership.

[6]

An advantage of setting up as a partnership could be the firm's ability to share resources, as joint owners they can benefit from existing capital from Nigel's previous shop and Samaira's expertise. As a partnership finance may be easier to raise, they're consisting of two owners meaning both of them can obtain profits compared to when they were sole traders. A disadvantage of a partnership could be disputes, they have equal ownerships and ideas of what the company should do may conflict. As a partnership they face unlimited liability, both owners are liable to fail financially if ~~they~~ their business collapses, with both their personal assets at stake.

A01 |
A03 |

2

6

A01 2 A03 2

A02 2

8

10

3. Sophia recently started her own business producing children's personalised wooden chairs which she sells at £150 each. Her variable costs per chair are £50 and her annual fixed costs are £14 400. She sold 100 chairs in the month of November.

(a) Calculate Sophia's profit for the month of November.

[4]

$$\begin{aligned} \text{£}150 \times 100 &= \text{SR} = \text{£}15,000 \\ \text{£}50 \times 100 &= \text{VC} = \text{£}5,000 \quad \text{Total costs} = \text{£}14,400 \\ \text{FC} &= \frac{\text{£}14,400}{12} = \text{£}1,200 \end{aligned}$$

$$\text{profit} = \underline{\text{£}8,800}$$

$$\begin{aligned} \text{SR} - \text{TC} &= \text{profit} \\ \text{£}15,000 - \text{£}6,200 & \checkmark \end{aligned}$$

For the month of December Sophia is planning to spend an additional £500 on advertising, which she forecasts will increase her sales by 20%. She estimates that her variable costs will also rise by an additional 10% per chair because she intends to include a Christmas themed cushion with every order. She does not intend to increase the price.

(b) Calculate Sophia's estimated **additional** profit for the month of December.

[4]

$$20\% \times 100 = 20$$

$$\text{Sales} = 120$$

$$120 \times \text{£}150 = \text{SR} = \text{£}18,000$$

$$1200 + 500 = \text{FC} = 1700$$

$$= \text{VC} = \text{£}6,600$$

$$\text{Add. profit} = \underline{\text{£}900}$$

$$\begin{aligned} \text{SR} - \text{TC} \\ 18,000 - 8,300 \\ \text{profit} = \underline{\text{£}9,700} \\ 9,700 - 8,800 = 900 \checkmark \end{aligned}$$

8
8

4. Bad publicity

To increase market share and profit some businesses may engage in unfair practices at the expense of the consumer. Unwanted PPI, the Volkswagen emissions scandal and the horsemeat food scandal are examples of these and illustrate the need to provide protection for the consumer against such practices.

South Korean tech giant Samsung has permanently stopped production of its high-end Galaxy Note 7 smartphone after reports of handsets that it had declared to be safe had caught fire. The company said, "For the benefit of consumers' safety, we stopped sales and exchanges of the Galaxy Note 7 and have consequently decided to stop production."

"Samsung could suffer a considerable loss of consumer faith," said Greg Roh, a market expert. He added, "The reason consumers prefer brands like Samsung and Apple is because of product reliability. So, in this case, brand damage is inevitable and it will be costly for Samsung to turn that around again."

Source: Adapted from BBC News 11th October 2016
<http://www.bbc.co.uk/news/business-37618618>

and use raw materials that are cheaper in products

(a) Explain why consumers sometimes need protecting from business organisations. [4]

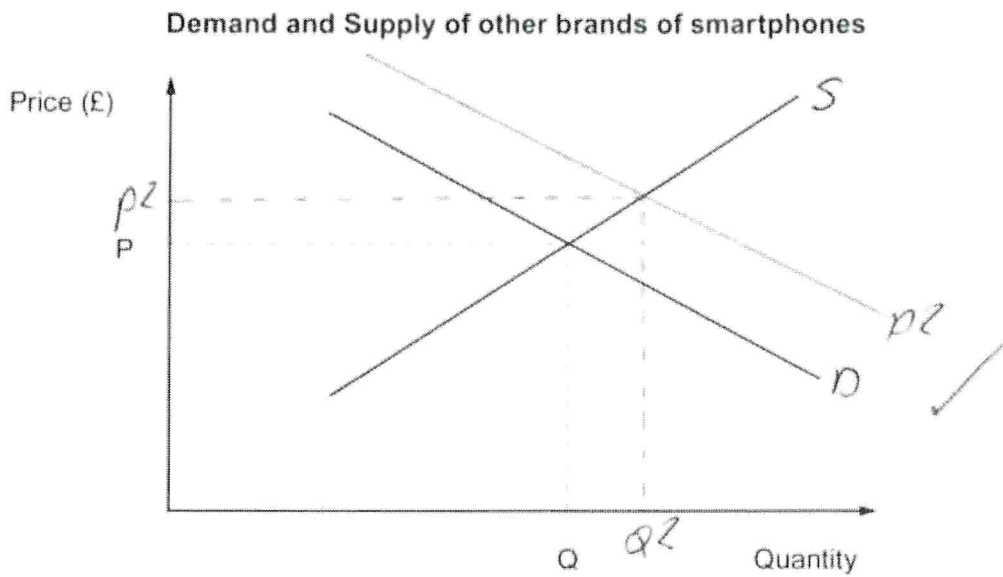
Consumers may require protection as oligopolies and monopolies can restrict output and raise price, by exploiting their large market share (power), the fact there are less substitutes at the same level means consumers become price takers, as there is no alternative product, or they discontinue purchases, ~~prod~~ Business' therefore maximise profits at the cost of consumers paying a high price, therefore ~~gov~~ organisations like the trading standards authority regulate what business ~~can do~~ can do, protecting consumers

ol/mon ↓ output ↑ price

- ↳ less substitutes
- ↳ con. price taker
- ↳ max. profits

A01 2/

A03 2/



- (b) Adapt and label the diagram above and explain what might happen to the price of other brands such as Apple as a result of the bad publicity for Samsung. [4]

Samsung will lose demand due to consumer preference, this will result in competitors/substitutes gaining like apple having an increase in demand as Samsung customers have switched brands, the increase of demand for competitors (shown $D \rightarrow D2$) at the same supply will result in a higher price level and higher quantity sold.

A01 ✓
A02 ✓
A03 2 ✓

4 ✓

Smartphone market

For market oriented

against

- large market - expensive product
- advertising
- income level
- advertising
- innovation

8

Population

A advertising

3 income level

6 Fashion

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(c) Assess the view that brand image is the most significant factor in the demand for smartphones.

[8]

The Smartphone market is most significantly impacted in demand by Image as the industry relies heavily on fashion and trends in consumer preference quality, reputation and style are important when buying products in the market, therefore any problems with image can massively reduce demand from customers. Smartphone products and business are market orientated, they operate in a large market where they must produce what consumers want, this means they're constantly focussing on image and consumer perceptions to sell products, meaning it's a crucial element of demand. However, it can be argued that because of their high costs, income level among consumers will be the most significant attention to demand, smartphones are a luxury good so in a recession period, their demand will lower. Advertising heavily increases demand, these firms invest heavily in it to gain a higher market share, signalling that promotion is the most important factor of demand. Smartphones are constantly developing, innovation is key to selling

✓

8

A01 2/

A02 2/

A03 2/

A04 2/

16

16

END OF PAPER

For continuation only.

(ii) The new technology, these large producers target a mass market requiring high input demand, heavy R&D investment needed to dominate market.