

Surname	Centre Number	Candidate Number
Other Names	64395	

GCE AS



B510U10-1



**BUSINESS – AS component 1
Business Opportunities**

FRIDAY, 17 MAY 2019 – AFTERNOON

1 hour

AS comp 1
Grade A

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	12	10
2.	16	16
3.	16	15
4.	6	6
Total	50	47

48

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.

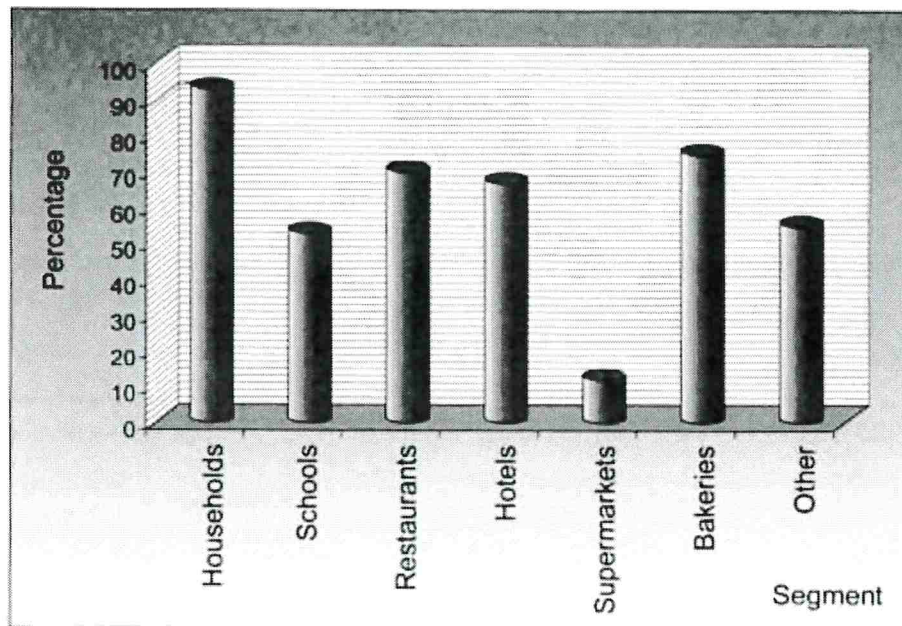
You are reminded of the necessity for good English and orderly presentation in your answers.

Answer all the questions in the spaces provided.

1. Simon has been unsuccessful at searching for someone to clean his oven at home and he is considering using his savings to start a small business cleaning ovens in his local area.

Simon carried out market research that has created both **quantitative** and **qualitative** market research data. The graph below shows an extract from this data.

Percentage of customer segments interested in oven cleaning



- (a) What is meant by *qualitative* market research data?

[2]

Qualitative data is not represented by numbers, instead by descriptions, an example could be asking a question such as "how does this taste" etc.

AD1-X

(b) Outline how Simon can use the data in the graph to help start his business. [4]

From the graph it is clear that households are the most interested in oven cleaning at 90%. For this reason Simon should focus his target market on households and create a service that caters to them, this means he may want to look into what is needed to ~~clean~~ ^{clean} small household ovens and create a service around this. Bakeries are the next most interested in the service so Simon may think about creating a different service through market segmentation focusing on cleaning industrial, larger sized ovens, this may encompass restaurants and hotels who have similar interest.

A01 - ~~X~~ A02 - ~~X~~

(c) With reference to Simon's business idea, explain how business opportunities occur. [6]

Many business opportunities occur when there is a gap in the market such as the one Simon experienced, when he was unable to satisfy his wants he realised that there must be others who are looking for an oven cleaning service who couldn't find one, this works as a business opportunity as there is a way to monetise oven cleaning offering a chargeable service, in other cases there may be products which people feel should be available, this can arise when existing products don't fully satisfy needs or have issues in their function for example Dyson Vacuums began as a result of bag vacuums being problematic. This is a business opportunity as it is likely that people will choose to purchase a better alternative.

One other way a business opportunity could arise is when someone creates an entirely new product or service for which there is no existing market, this could be a new invention which could satisfy a need or want that isn't being satisfied already without people being aware for example the creation of the internet.

A01 - ~~X~~ A02 - ~~X~~ A03 - ~~X~~

2. Evelyn, a qualified hairstylist, has run a successful mobile hairdresser business for five years. A mobile hairdresser travels to customers and cuts their hair in their own homes. Evelyn is a sole trader.

Evelyn wishes to expand her business by finding premises for a new hair and beauty salon in a suitable location. Evelyn is thinking of introducing new services, including tanning, nail art and waxing. Evelyn is also considering changing the legal structure of her business from a **sole trader** to a **private limited company**.

- (a) Consider the most important factors that Evelyn needs to take into account when deciding the location of her new hair and beauty salon. [8]

Hairdressers need to be located in an area that ~~is~~ has good transport links. For example a town centre, this will make it far easier for customers to visit, it is important to Evelyn's business that it is easily accessible as this ~~will~~ will increase customers and as a result sales revenue.

Evelyn also needs to consider the cost of the location, it must fit to her budget particularly as she is a sole trader with unlimited liability, her location must be within her budget to leave her cash for other aspects of the business.

Evelyn needs to consider the proximity to competition when setting up her ~~business~~ choosing her location, if she locates too close to competition then she will find her sales revenue is limited as people may have prior loyalty to her competition and choose not to use Evelyn whereas if she is in an area far from competition she will see far higher sales.

Evelyn must also consider the infrastructure of the location e.g. she must be able to house and power equipment used in tanning, nail art and waxing.

High footfall areas are ~~the~~ important for businesses such as hairdressers as consumers may ~~be~~ be influenced by seeing the business in person and be reminded that they ~~to~~ want a haircut.

A01 → A02 → A03 → A04 →

- (b) Evaluate the view that businesses should operate as a *private limited company* rather than a *sole trader*. [8]

Private limited companies are beneficial as they have a limited liability meaning that the owners are only liable for the money they have invested in the business becomes bankrupt unlike a sole trader where the owner has unlimited liability, in which case the owner is at risk of financial trouble in the event of ~~bankruptcy~~ bankruptcy.

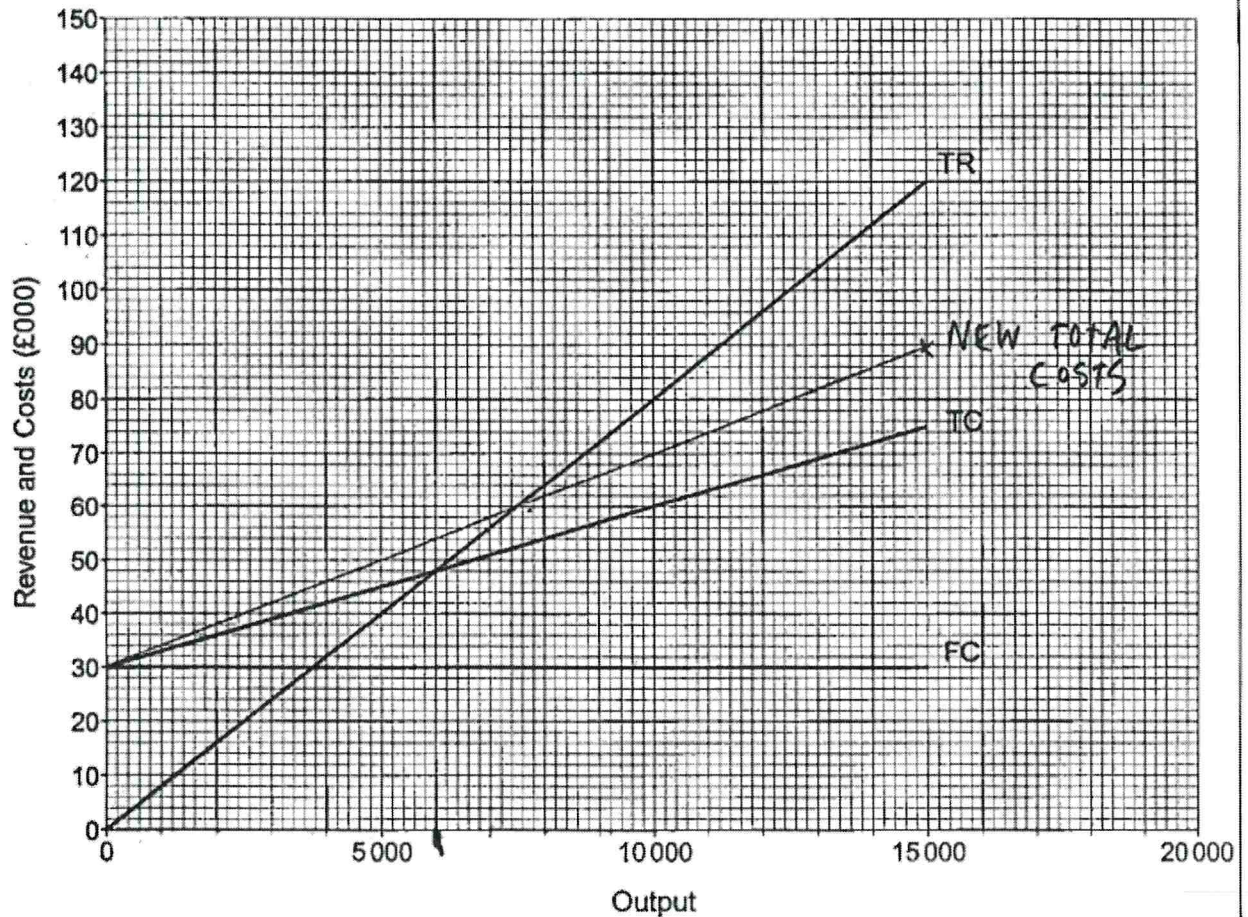
Private limited companies operate as separate entities to their owners making such cases less dangerous to the owners.

LTDs have easier access to capital than sole traders as larger numbers of shareholders means finance is more easily available compared with sole traders where this may be limited. LTDs can however be harder to operate with so many owners / shareholders each with their own agenda as conflicting opinions create problems, in sole traders this is not a problem as there is only one person in control, this means decisions can occur more easily and quickly and therefore the business can improve itself. This may come as a disadvantage however as the owner could be under stress with so much responsibility.

Sole traders don't have to publish their financial records which is an advantage as opposed to LTDs which have to, this takes time and can be costly however the sole traders would be wise to keep a record of their finance anyway.

The decision as to whether to become a sole trader or a private limited company is heavily dependent on the business itself, both have positives and negatives which apply differently to different businesses e.g. small local businesses would be wiser to operate as sole traders whereas larger ones would be better off as LTDs.

3. Josephine Jeffries, founder of JJ Toffee Fudge Ltd., is a successful entrepreneur who sells her toffee fudge to a wide range of customers. During the next financial year Josephine plans to sell a total of 15 000 boxes. Below is a break-even chart for JJ Toffee Fudge Ltd.



- (a) (i) What is the break-even point? [1]

6000 units

- (ii) What is the current value of fixed costs? [1]

£30 000

- (iii) What is the unit price per 1 box of toffee fudge? [1]

~~$\frac{120000}{15000} = 120000 \div 15000 = 0.125$~~ ~~$\frac{120000}{15000} = 8$~~

~~$120000 \div 15000 = 0.125$~~

$\frac{120000}{15000} = 8 \quad \text{£}8$

Josephine planned to sell 15 000 boxes of toffee fudge. However, her business advisor believes that actual sales are likely to be 20% lower, this will affect her margin of safety.

- (b) (i) What is meant by the margin of safety? [1]

The number of output the business is away from break even
 $\text{actual output} - \text{break even}$ 8000

- (ii) Calculate the margin of safety based on the advice of her business advisor. [2]

$$15000 \times 0.8 = 12000 = \text{actual output}$$

$$12000 - 6000 = 6000 \text{ units}$$

The variable cost per unit is currently £3. Josephine wants to find what happens if costs increase.

- (c) (i) Using the chart on **page 6**, plot and label the new total costs line if variable costs rise to £4 per unit. [2]

- (ii) Using the new total costs line, state what Josephine's profit will be if 15 000 units are sold. [1]

$$\text{total rev} = 120000 - 90000 = \pounds 30000$$

- (iii) What is the effect of the change in total costs on the break-even point? [1]

$$4 \times 15000 = 60000 + 30000 = 90000$$

(d) Evaluate the usefulness of break-even analysis to businesses. [6]

Break even analysis can show clearly how many units a business needs to sell to be able to make a profit, this can act very well as a target for sales however often it is not accurate for example the ~~own~~ data will be changed completely if new selling prices are introduced or there are sales promotions or variable costs increase etc... then the data will alter massively, if viewed as an approximation then break even can be very useful as it can show how far in the clear a business is with margin of safety however the business must take factors such as inconsistent demand into account.

Overall break even works well as a vague idea of ~~giving~~ various financial stats for businesses with only one product or only concentrating on one product ~~as~~ however it is very unrealistic for most actual businesses making it not very useful.

103 - 3/104 - 8

15

16

4. Businesses of all sizes are affected by a fall and rise in the income of their customers, whether they sell **inferior, normal or luxury goods**.

With reference to the concept of income elasticity of demand, explain the nature of *inferior, normal* and *luxury goods*. [6]

Inferior goods are those that would increase in demand in times of financial hardship or lower incomes, for example supermarket ownbrand goods, at higher incomes people would choose to buy better quality products.

Normal goods are largely unaffected by income, they are ^{income} inelastic and are usually goods that are needed e.g. good like bread or milk. ✓

Luxury goods are those whose demand increases when incomes increase, like *inferior* goods their income elasticity of demand is elastic meaning they are particularly sensitive to changes in income.

101-β 103-β

10

10
6

END OF PAPER

For continuation only.

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