

General Certificate of Education
January 2003
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 1

BUS1

Monday 13 January 2003 Afternoon Session

In addition to this paper you will require:

an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS1.
- Answer **both** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 63.
- Mark allocations are shown in brackets.
- Both questions carry equal marks.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate.
- The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.
- Up to 3 marks will be awarded for the quality of your written communication.

Answer **both** questions.

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Total for this question: 30 marks

Study the information and answer **all** parts of the question that follows.

Coffee with Conscience

Cafédirect Ltd is committed to supplying consumers with good quality coffee without exploiting coffee growers in less developed countries. This is known as “fair trade”. The company prides itself in:

- paying a fair price – often 10 % above that paid by other companies;
- paying growers 60 % of the price when placing an order, rather than waiting until the goods are delivered. 5

Cafédirect admits that it is aiming to make consumers in wealthy countries, such as the UK, think about what they put in their supermarket trolleys. The company is determined to avoid forcing farmers in less developed countries to accept low prices and low living standards.

In spite of these principles the company has had low sales because most consumers are not interested in fair trade. Cafédirect took the decision to relaunch its instant coffee brand as 5065 in spring 2002. The company’s market research had revealed that drinkers of instant coffee were ‘turned off’ by the name and packaging of the old product. Many consumers had not heard of, or seen, the product. A Cafédirect spokesperson said: “We want to attract younger, more mainstream customers. The instant coffee market is a mainstream, mass market”. The introduction of 5065 is a move from a niche market to a mass market for Cafédirect’s instant coffee brand. 10 15



The Cafédirect name will still appear on the packaging of 5065 as will a description of how fair trade helps producers. This will differentiate the product from other instant coffees. However, the packaging has been redesigned to emphasise the quality of the product. Cafédirect faces tough competition from well-known coffee producers such as Nescafé who have much more experience of selling instant coffee in a mass market. 20

Cafédirect received a boost to its plans to launch 5065 when the Co-op announced that it is to sell fair trade products in 1500 of its supermarkets throughout the country. The Co-op has produced leaflets and posters explaining how fair trade helps farmers in less developed countries. Cafédirect plans to promote 5065 widely. Business analysts believe that effective distribution will be vital if 5065 is to be successful in a mass market. 25

- (a) Explain what is meant by the term “niche market” (line 16) *(3 marks)*
- (b) Cafédirect pays growers 60 % of the price of the coffee when placing an order. Outline **one** financial benefit to coffee growers that may result from this action. *(3 marks)*
- (c) Cafédirect’s decision to launch 5065 was based on the results of primary market research. Explain **two** reasons why the company may have decided to carry out this research. *(6 marks)*
- (d) Analyse **two** ways in which effective distribution might help Cafédirect to market 5065 successfully. *(8 marks)*
- (e) Cafédirect has decided to stop selling its instant coffee in a niche market and to launch it into a mass market. Discuss the case for and against this decision. *(10 marks)*

TURN OVER FOR THE NEXT QUESTION

Study the information and answer **all** parts of the question that follows.

Archerman plc

Archerman plc is one of the UK's largest manufacturers of electronic products. The company is well known for manufacturing a range of high quality software and components used in audio visual equipment. Despite this reputation Archerman has suffered from falling levels of profits over the last few years and has lost market share to foreign competitors. A new management team was recently appointed with the objective of improving the company's financial performance. 5

One of the first decisions taken by the new management team was to increase the company's production of compact disks and digital versatile disks (DVDs). To enable this to happen Archerman intends to open a factory at Swansea in South Wales. This will allow the company to manufacture larger quantities of CDs and DVDs using the most up-to-date equipment. As a consequence Archerman expects to reduce costs and become more price competitive. 10

Output of CDs and DVDs per annum (millions)	Total costs of production (£ millions)
0	4.0
5	7.4
10	10.3
15	13.0
20	15.6
25	18.4

The new factory is expected to cost £20 million to build and equip and to have fixed costs of £4 million in its first year of trading. Owing to the company's low profits over recent years, external sources will be used to raise most of the capital required. The company's expected total costs for its new factory are set out above.

The company is concerned to make sure that the factory is profitable. To achieve this some 15 managers have suggested that cost-plus pricing is used, whilst others believe they must match the prices charged by Archerman's competitors. Due to the fall in profits suffered by the company in recent years, the management team is anxious that the new factory earns profits as soon as possible. They agreed that operating the factory as a profit centre would help to achieve this aim.

- (a) What is meant by the term “profit centre” (line 19). *(2 marks)*
- (b) Explain **one** disadvantage to Archerman of using cost-plus pricing for the CDs and DVDs produced at the new factory in Swansea. *(4 marks)*
- (c) Archerman plc has set a price of £1.10 per disk.
- (i) Calculate the level of profit or loss the company will earn from the new factory if it produces and sells 5 million disks per year. *(3 marks)*
- (ii) Calculate the contribution received per disk if the factory produces and sells 15 million disks each year. *(4 marks)*
- (d) Archerman plc needs to raise £20 million to build and equip its new factory in Swansea. Analyse **two external** sources of finance Archerman might use to raise the funds it requires. *(8 marks)*
- (e) To what extent is it vital for the Swansea factory to earn profits in the short-run in these circumstances? *(9 marks)*

END OF QUESTIONS