

General Certificate of Education  
June 2005  
Advanced Subsidiary Examination

**BUSINESS STUDIES**  
**Unit 1**

**BUS1**



Monday 6 June 2005 Afternoon Session

**In addition to this paper you will require:**

an 8-page answer book.  
You may use a calculator.

Time allowed: 1 hour

**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 52.
- 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 2 marks will be awarded for the quality of your written communication.

Answer **both** questions.

**1**

**Total for this question: 25 marks**

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

**WHSmith – Sales fall at one of the UK’s best known retailers**

WHSmith is one of the UK’s best known retailers. According to recent primary market research conducted by *Marketing* magazine, 95% of all UK adults claim to shop there. The problem of falling sales revenue and profits (see **Table 1**) is not lack of customer awareness – but low visit frequency and low value of purchase on each visit. The same research suggested that 81% of adults buy goods from the shops only once a month or less. The take up of the company’s loyalty card is low, despite heavy promotion costs. Some shop managers believe that the average contribution per customer needs to be increased by a combination of marketing measures. An expensive shop refit programme has started in some areas to encourage customers to spend longer in the stores. 5

**Table 1: Sales and profit data for WHSmith**

Year ended 31st August	2002	2003
Sales Revenue £m	2936	2900
Profits £m	89	52

WHSmith tends to be a ‘jack of all trades’ retailer with no specialist, differentiated identity. A former WHSmith Marketing Director claims that, “Too much of its product mix is available more cheaply elsewhere at supermarkets. Retailers such as Waterstone’s and HMV carry a wider range of specialist products and, typically, offer a better service and a more appropriate store environment.” 10

**Table 2: Estimated cost and sales data for a typical WHSmith store**

Current average spend per customer visit	£6.00
Average contribution made on sales	20% e.g. £1.20 on average spend per customer of £6
Annual fixed costs	£180 000
Annual number of customer visits	200 000

*Source:* adapted from *Marketing*, 14/10/03, WHSmith faces struggle to grow customer frequency, Mark Kleinman and *WHSmith plc, 2003, Report and Accounts*

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- (a) What is meant by the term “primary market research” (line 1)? (2 marks)
- (b) Refer to **Table 2**.
- (i) Calculate the number of customer visits needed for a typical WHSmith store to break-even. (3 marks)
- (ii) Calculate the increase in annual profits made by a typical store if the average spend per customer visit rises to £8.00. (Assume annual fixed costs and average contribution made on sales, do not change.) (5 marks)
- (c) The net cash flow for WHSmith was minus £31 million for the year ending 31/08/02. Analyse **one** possible reason for the difference between the company’s profits and net cash flow. (6 marks)
- (d) Discuss the marketing measures that WHSmith could take to increase profits. (9 marks)

**TURN OVER FOR THE NEXT QUESTION**

Turn over ►

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**2****Total for this question: 25 marks**

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

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- (a) What is meant by the term “profit centres” (line 8)? (2 marks)
- (b) Kodak is considering lowering the price of camera film. Explain **one** difficulty of using the concept of price elasticity of demand when deciding whether to lower the price of Kodak branded film. (6 marks)
- (c) Examine **two** ways in which product portfolio analysis might be useful to Kodak’s management. (8 marks)
- (d) Discuss how Kodak might raise the \$3 billion needed to finance its new plans. (9 marks)

**END OF QUESTIONS**