

General Certificate of Education
June 2006
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 1

BUS1

Monday 5 June 2006 1.30 pm to 2.30 pm

For this paper you must have:

- 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 **all** 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.
2 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- Both questions carry equal marks.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Answer **both** questions.

Total for this question: 25 marks

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

iPod leads Apple towards the mass market

- 1 For many years, Apple has sold products that have been viewed as special and different. Its customers have comprised a niche market and are distinct from ordinary users of technological products. Apple's regular customers value the company's innovative products and high quality design. At the start of 2005, the company held
5 under 10% of the global market for computers, much less than competitors such as Dell and Hewlett-Packard. One of the problems that Apple faces is that its computers do not use the popular Microsoft Windows operating systems.

- 10 However, the growing popularity of the very low price Mac mini-computer and the astonishing success of the iPod may change this. Apple is on the verge of becoming a mass market producer and is promoting its products strongly.

The photograph which appeared here has been removed due to third-party copyright constraints.

Source: www.apple.com

The iPod has boosted Apple's profits. During 2004, the company sold 10 million iPods worldwide, with almost 50% of these sales coming in the run-up to Christmas. In 2004, global sales of digital portable music players were 25 million. The market size is growing rapidly.

- 15 Apple has not been satisfied with these sales figures and, aware of growing competition from much larger rivals such as Sony, has sought to extend its dominant position in the digital music market. Apple's latest iPods have more memory, longer battery life and prices have been cut by an average of about £40 (15–20% of the selling price).
- 20 In 2005, Apple launched its cheapest ever iPod – the iPod mini. At the same time, it introduced a cheap version of its Macintosh PC. This is a high technology computer in a tiny box – the result of intensive research by the company. The company hopes that the popularity of the iPod will continue to boost sales of its other products.

- (a) What is meant by the term 'market size' (lines 13–14)? *(2 marks)*
- (b) (i) Apple's iPod is one of the leading products in the portable digital music player market. Calculate its 2004 market share. *(3 marks)*
- (ii) Outline **one** reason why Apple might encounter cash flow problems on a regular basis. *(3 marks)*
- (c) Examine **two** possible reasons why Apple might have steadily reduced the price of its iPod. *(8 marks)*
- (d) Discuss the case for **and** against Apple selling its products in the mass market. *(9 marks)*

Turn over for the next question

Total for this question: 25 marks

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

The Haven Hotel

1 Six months ago, Pip Keane bought the Haven Hotel in south Cornwall. The previous owners had neglected the small hotel and Pip had to pay for substantial repairs and improvements. This refurbishment was financed by a five year bank loan agreed when Pip bought the Haven Hotel. The bank manager insisted on seeing the results of Pip's financial planning, as well as insisting that the Haven Hotel should be used as security for the loan. He asked to see Pip's cash flow forecast as well as budgets for costs, revenues and profits for the first year of trading.

10 Pip had planned the purchase of the Haven Hotel carefully. She had used primary market research as part of her planning process and had spoken to other people who ran hotels in the area. Although she had never managed a hotel before, she realised the business would be very seasonal. She was advised that the best months for hotels in south Cornwall were April to August, with over 70% of customers expected during this period. Pip hoped to break even in the first year of trading.

15 Pip spent a lot of money on marketing the Haven Hotel before its opening and had appeared on a TV programme about short holidays in south Cornwall. Once the first guests arrived, Pip was busy, but found time to monitor her finances carefully. After her first two months' trading, she calculated the variances for her costs, revenues and profits. Pip was pleased with the profitability of the Haven Hotel during its first two months of trading. The data she used are shown in **Figure 1**.

Figure 1

Haven Hotel: budgeted and actual costs, revenues and profits for April and May 2006				
	April		May	
	Budget £	Actual £	Budget £	Actual £
REVENUE				
Bar sales	2 000	2 460	2 000	2 750
Accommodation	2 500	3 050	2 500	2 970
Total Revenue	4 500	5 510	4 500	5 720
COSTS				
Food & Drinks	1 100	1 150	1 150	1 300
Heat & Light	750	700	700	490
Wages	1 400	1 300	1 450	1 400
Rent & Rates	1 500	1 500	1 500	1 500
Interest charges	800	800	800	840
Total Costs	5 550	5 450	5 600	5 530

- (a) What is meant by the term 'break even' (line 13)? *(2 marks)*
- (b) (i) Outline **one** way in which primary market research might have helped Pip. *(3 marks)*
- (ii) Calculate the total profit variance for the first two months of trading. *(6 marks)*
- (c) Analyse **one** disadvantage to Pip that might result from using a bank loan to finance the improvements to the Haven Hotel. *(5 marks)*
- (d) Discuss whether Pip was right to be pleased with the level of profits earned by the Haven Hotel during its first two months of trading. *(9 marks)*

END OF QUESTIONS

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