

Business decisions and strategy

Level: Pearson Edexcel Level 3 Advanced GCE

Subject: Business (9BS0)

Exam Board: Edexcel A level Business students for all boards

Topic: Business decisions and strategy

Type: Questionnaire

To be used by all students preparing for Pearson Edexcel Level 3
Advanced GCE Business (9BS0)

Questions

Q1.

Extract A

VisionSpring

VisionSpring is a social enterprise founded to provide glasses that are affordable for people in developing countries, such as India. These glasses improve job opportunities for many people in rural areas.

VisionSpring supplies local small businesses, that sell its glasses, and also trains the business owners to conduct eye tests in local villages.

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Each pair of glasses costs VisionSpring £1 to make and deliver, which the small business buys for £2 and sells to customers for £4. As every step of the chain is profitable, the business model is sustainable.

VisionSpring's current growth strategy is to reinvest its profits to expand the scheme, but it is also considering obtaining loans from established businesses in developing countries.

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One such business is ITC, a tobacco company in India that supplies the majority of village shops.

(Source: adapted from Pyramid power © The Economist, Jan 11th 2007)

Extract B

Economic impact of buying a pair of VisionSpring glasses

Price	£4
Estimated increased earnings per person, per year	£108
Expected life of a pair of glasses	2 years

(Source: adapted from © VisionSpring 2018)

Extract C

Warby Parker

Warby Parker was founded with the objectives of selling designer glasses at a low price and being socially responsible. The optical industry is dominated by a few large companies that keep prices high, making huge profits from consumers who have limited choice.

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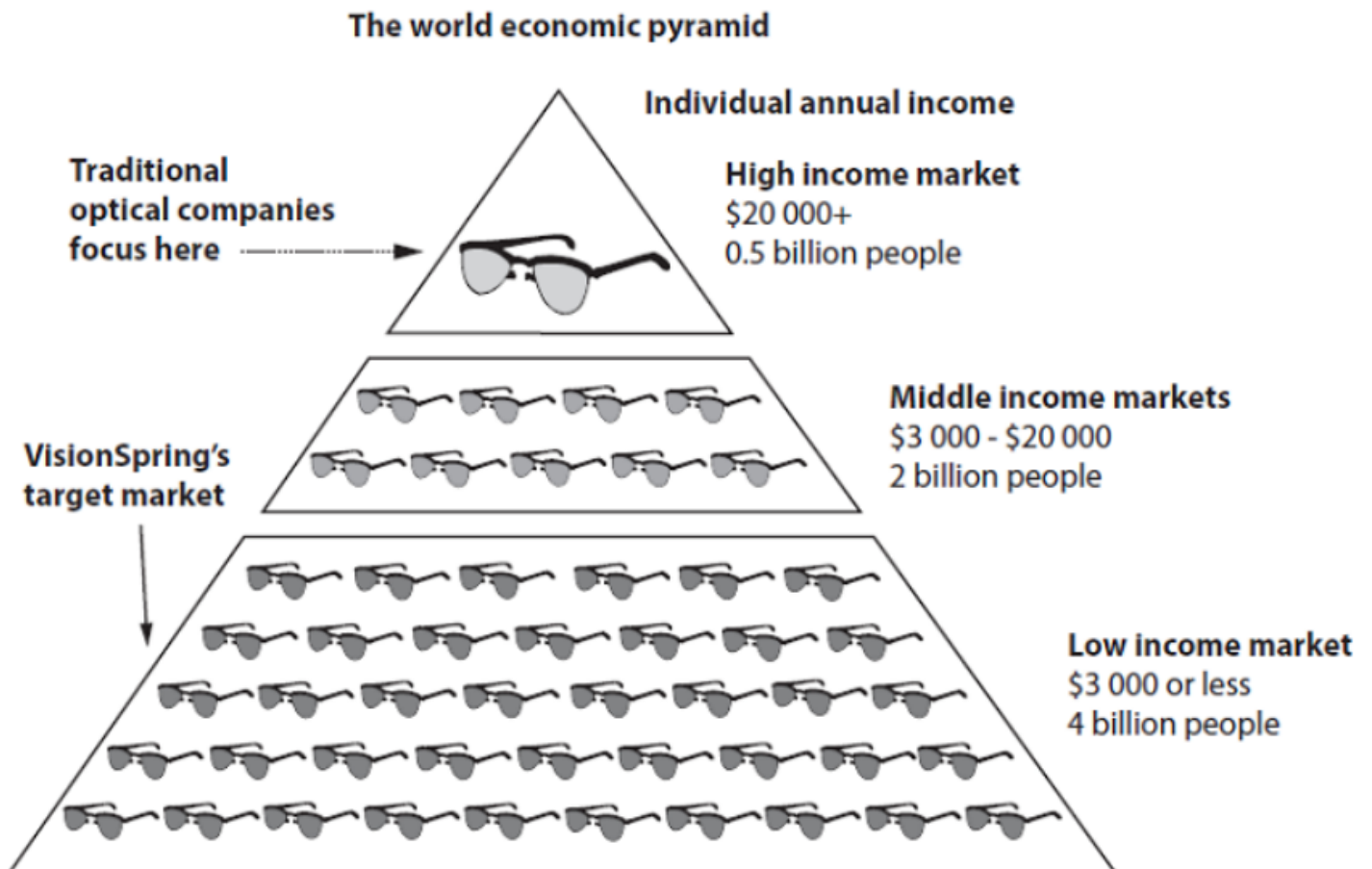
Warby Parker created an alternative by designing and selling glasses to customers directly online. It is able to provide higher-quality, better-looking prescription glasses at a lower price than larger competitors.

Almost one billion people worldwide lack access to glasses, limiting their ability to learn or work. Warby Parker believes that everyone has the right to see. For every pair of glasses it sells another pair is given free to charities, such as Sightsavers, operating in developing countries.

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(Source: adapted from <https://www.warbyparker.com/history>)

Extract D





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In high income markets, glasses are typically sold using a low-volume, high-profit margin approach. However, VisionSpring recognised the potential for success in the developing world. To achieve this, it focused on the low income market, using a high-volume and low-profit margin approach.

(Source: adapted from VisionSpring 2018)

Explain one reason why businesses that sell VisionSpring's glasses may prefer to stay small.

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(Total for question = 4 marks)

Q2.

Extract E

Burts experiences rapid growth

Burts Chips Ltd (Burts) was founded in 1997 in Kingsbridge, South Devon. The company manufactures high-quality, hand-fried potato chips (crisps). Despite competing in the fiercely competitive potato crisp market, the company has experienced rapid organic growth since the first day it opened. As a result of producing high-quality, heavily branded crisps, supermarkets such as Tesco have been willing to stock a range of Burts' flavours. They compete for shelf space with brands such as Walkers and McCoys, which dominate the market.

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Extract F

Burts expands into foreign markets

In 2014, Burts decided to increase its productive capacity by 100% by investing £2.1m in new frying machines and a more efficient packaging line. This investment had to be funded by issuing new shares to existing investors.

The expansion of Burts' factory was necessary to cope with rapid growth in demand. Although most of this extra demand came from the UK, Burts now sells its crisps in 42 different countries and has become the leading brand in the Dutch premium crisp market. Burts' focus on organic growth has been driven by strong branding and a commitment to quality and innovation - all demonstrated by its willingness to risk the production of unusual flavours such as vanilla sea salt.

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Extract G

Selected information from Burts Chips Ltd's Statement of Comprehensive Income 2012-13

	2013 (£)	2012 (£)
Turnover	14 667 947	12 867 523
Cost of sales	(10 271 989)	(9 335 193)
Gross profit	4 395 958	3 532 330
Other operating expenses	(3 865 266)	(3 470 420)
Operating profit	530 692	61 910
Exceptional items	268 617	104 017
Interest payable	(101 283)	(331 578)
Profit for the year (net profit)	698 026	(165 577)

Extract H

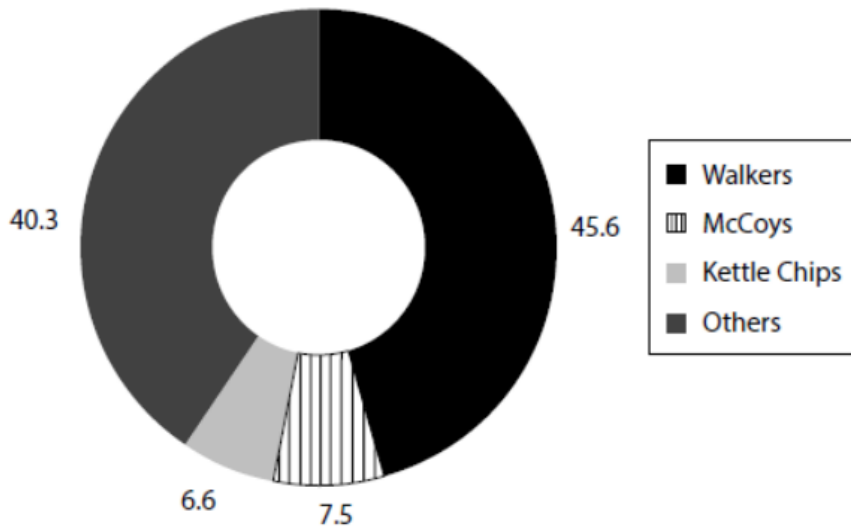
Selected information from Burts Chips Ltd's Statement of Financial Position 2012-13

	2013 (£)	2012 (£)
Non-current assets	1 342 665	1 342 665
Current assets	3 572 020	3 578 542
Current liabilities	(35 547)	(304 164)
Non-current liabilities	(2 205 824)	(2 205 824)
Share capital	3 275 000	3 275 000
Retained profit	(601 686)	(863 781)

Assess the likely impact on Burts of its decision to grow the business organically.

Q3.

Market share (%) in the UK crisp market 2013



(Source: Trends & Developments in the Savoury Snacks Sector in the UK, Canadean 2014)

Assess the likely impact on premium crisp manufacturers, such as Kettle, of having a small market share.

(12)

Q4.

Importance of promotional activity in the UK crisp market

The UK crisp market is very competitive despite the presence of a clear market leader, Walkers, owned by US multinational Pepsico. Commenting on the UK crisp market, Marketing Director of Burts Chips Ltd, Leanne Bramhall, stated, 'The most depressing factor about the UK crisp market is the need for constant promotional activity to drive sales. This has resulted in niche premium crisp manufacturers suffering'. This is despite market research showing positive economic growth forecasts. This research also shows the crisp market reaching total sales in excess of £1bn in the UK during 2013.

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(Source: Leanne Bramhall, Marketing Director, Burts Chips Ltd)



Q5.

Assess the possible impact of the decline in R&D expenditure on the productivity of UK textile businesses.

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Q6.

Using the data in Extracts B, C and D, assess the likely impact of falling UK petrol prices on car manufacturers based in the UK, such as Toyota.

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Q7.

Extract G

Selected information from The Gym Group's Statement of Comprehensive Income for year ending 31 December 2015

	31 December 2015 (£'000)	31 December 2014 (£'000)
Revenue/Turnover	61 084	45 480
Cost of sales	(1 073)	(1 040)
Gross profit	60 011	44 440
Administrative expenses	62 712	42 105
Operating profit/(loss)	(2 701)	2 335

(Source: adapted from <http://www.tggplc.com/media/66640/24869-Gym-Group-AR15.pdf>)

Extract H

Selected information from The Gym Group's Statement of Financial Position as at 31 December 2015

	31 December 2015 (£'000)	31 December 2014 (£'000)
Non-current assets	134 551	118 380
Current assets	8 636	9 933
Current liabilities	25 546	24 656
Non-current liabilities	9 198	72 072
Equity/Shareholder funds	108 443	31 585

(Source: adapted from <http://www.tggplc.com/media/66640/24869-Gym-Group-AR15.pdf>)



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In 2016, had it not been for the Competition and Markets Authority, Pure Gym may have been able to reach its target growth by taking over The Gym Group, rather than LA Fitness.

Using the data in Extracts G and H calculate appropriate accounting ratios for The Gym Group and, using other non-financial information, evaluate these two options.

Recommend which company it would have been better for Pure Gym to take over to achieve its growth target.

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(Total for question = 20 marks)

Q8.

Extract E

Young's Seafood Limited

Young's Seafood Limited is the leading UK fish and seafood processor, providing frozen and chilled, branded and retailer branded fish. Its teams create over 2 000 different products including smoked salmon, breaded scampi, fish pies, battered fish and fillets. Fish can play an important part in a healthy diet and official health guidance suggests that people should try to eat fish at least twice a week.

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The following table shows the turnover and profit for Young's Seafood Limited in 2011 and 2012.

	January to December 2011	January to September 2012
Turnover	£458m	£425m
Operating profit	£9m	£7m
Operating profit margin	1.97%	1.64%

(Source: adapted from [www.youngseafood.co.uk/about us](http://www.youngseafood.co.uk/about-us))

Extract F

How to be an ethical consumer of fish

Until now, only a few fisheries have been awarded the coveted blue label by the Marine Stewardship Council (MSC). Mackerel from the North Sea, and off Cornwall and Hastings, have met the eco-credentials of sustainability and traceability from sea to fork.

Determined consumers could track the catch from trawlers taking part in the 'responsible fishing scheme' run by the Sea Fish Industry Authority, although it is mainly aimed at ensuring a sustainable approach elsewhere in the supply chain - wholesalers and supermarkets, for instance.

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The MSC's Fishonline website suggests fish to avoid include Atlantic cod, halibut and wild salmon and beam-trawled brill and turbot from the North Sea. Organically farmed salmon is fine, as are black bream, sea bream and flounder from Cornish waters or off the north and north-west coast of Wales.

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Much of the fish eaten in Loch Fyne restaurants, an outlet praised recently by Ethical Consumer magazine, comes from inshore trawlers off the Cornish coast or ports and fish farms in Iceland and Norway.

(Source: adapted from 'How to be an ethical fish consumer' by James Meikle, 26 March 2008, © Guardian News and Media Limited 2014)

Evaluate the environmental **and** ethical factors that might affect the success of a business such as Young's Seafood Limited.

(20)

Q9.

Extract A

Microsoft buys Nokia handset business for €5.4bn

Nokia is selling its mobile phone division for €5.44bn (£4.6bn) in a deal that will result in 32 000 staff transferring to Microsoft. This takeover marks the boldest step yet taken by Microsoft in its recently announced strategy of moving decisively into the device- manufacturing business. Prior to this deal, Microsoft provided Nokia with Windows software at a reduced cost to prevent it from developing its own operating system.

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Microsoft hopes this move will allow it to design hardware for its software products and will therefore bring it the kind of success enjoyed by competitors such as Apple.

As part of this deal, Microsoft is also providing €1.5bn of immediate financing to Nokia who have been unable to raise external finance. Even inside cash-rich Microsoft, Nokia's phone division will face serious challenges. In 2010, revenue from sales of Nokia handsets was €7.2bn. By 2013, revenue had fallen by 61%.

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(Source: adapted from 'China lifts 13-year ban on video game consoles' by Fred McConnell,
7 January 2014, © Guardian News and Media Limited 2014)

Extract B

Worldwide mobile device sales to end users by vendor in Quarter 1 2011 and Quarter 1 2012 (thousands of units)

Company	Quarter 1 2011 units	Quarter 1 2011 market share (%)	Quarter 1 2012 units	Quarter 1 2012 market share (%)
Samsung	68 782.0	16.1	86 567.6	20.7
Nokia	107 556.1	25.1	83 162.5	19.8
Apple	16 883.2	3.9	33 120.5	7.9

(Source: adapted from www.gartner.com)



Extract C

Mobile phone usage forecast

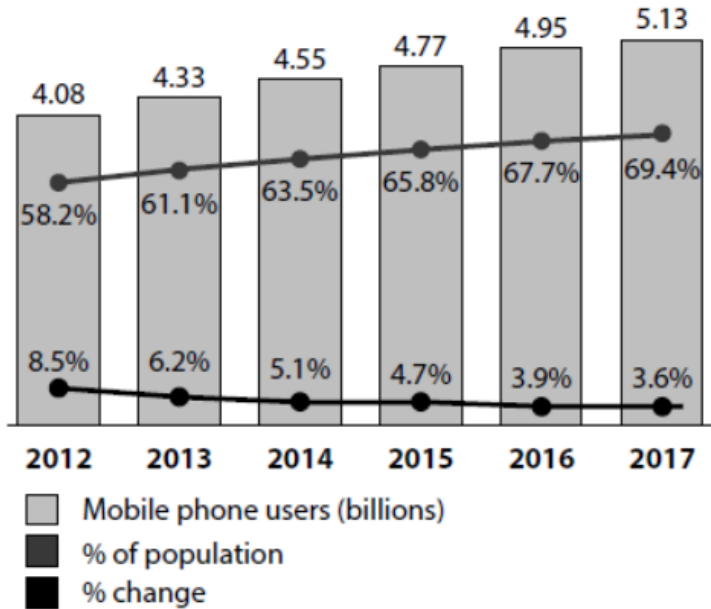


Figure 1

Mobile Phone Users Worldwide,
2012–2017 (billions, % of population and % change)

(Source: © eMarketer Inc)

Mobile phone users are rapidly switching over to smartphones as devices become more affordable due to technology advances. Smartphone users currently account for the majority of mobile phone users.

Assess why Microsoft might decide to take over another business such as Nokia.



Q10.

Using the data above, calculate the expected value and net gain of each option. You are advised to show your workings.

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Q11.

Read the following extracts (G and H) before answering the question.

Extract G

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Share capital	3 275 000	3 275 000
Retained profit	(601 686)	(863 781)

Using the data in Extracts G and H and ratio analysis, evaluate whether Burts should continue to expand.

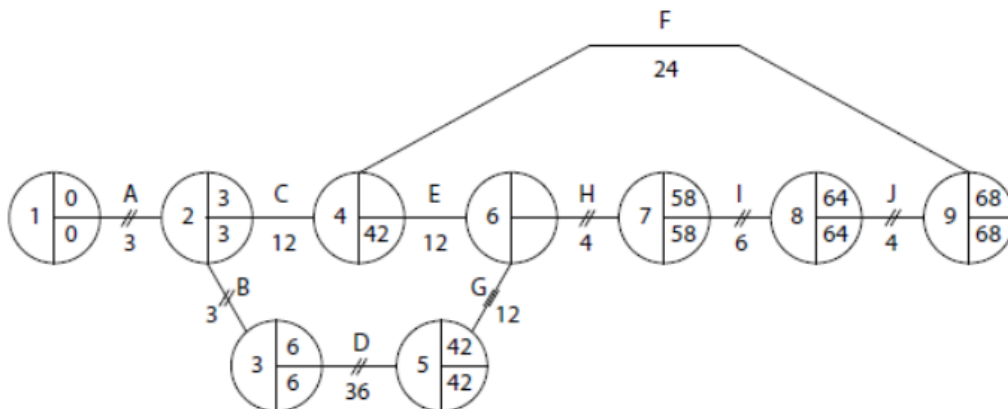
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Q12.

Grimsby Fish has created more than 100 jobs with a new factory as part of a £12m development. They are opening a 6 000 square metre factory in Grimsby to meet the demands of a new contract with Marks & Spencer.

The factory will produce a range of handcrafted fish cakes, pasties, quiches and pies.

Before building its new factory, Grimsby Fish constructed a network diagram to plan the project. Each figure represents the number of days each activity was estimated to take.



Calculate the total float for Activity E.

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Q13.

Extract A

Tended Ltd

Tended Ltd is a fast-growing technology start-up company based in Lincoln, UK founded by young entrepreneur Leo Scott Smith, who is the main shareholder. The company has created a personal safety device called the 'Tended Protect. Tended Ltd aims to increase its market share of the global wearable technology market.

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Tended Protect is a wrist-worn wearable safety device that monitors the movements of the user through artificial intelligence and has the ability to learn and detect 'abnormalities, such as a fall or strong impact. If the user does not or cannot respond to the device's safety check, then an alert will be sent to the user's nominated emergency contact. It gives the GPS location, health and activity information and will open the channel for live audio with the wearer.

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Tended Ltd has gained £50 000 from Enterprise Loans*, to help further develop the Tended Protect, create new jobs and marketing for the new product, as well as fulfil its initial orders.

*A subsidiary of the UK government's British Business Bank.

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(Source: adapted from <http://www.smeweb.com/2018/07/09/qa-leo-scott-founder-ceo-tended-protect/>
and <https://cityx.co.uk/2018/07/tended-wearable-safety-device-developed-lincolnshire/>)

Extract B

The expansion of Tended Ltd

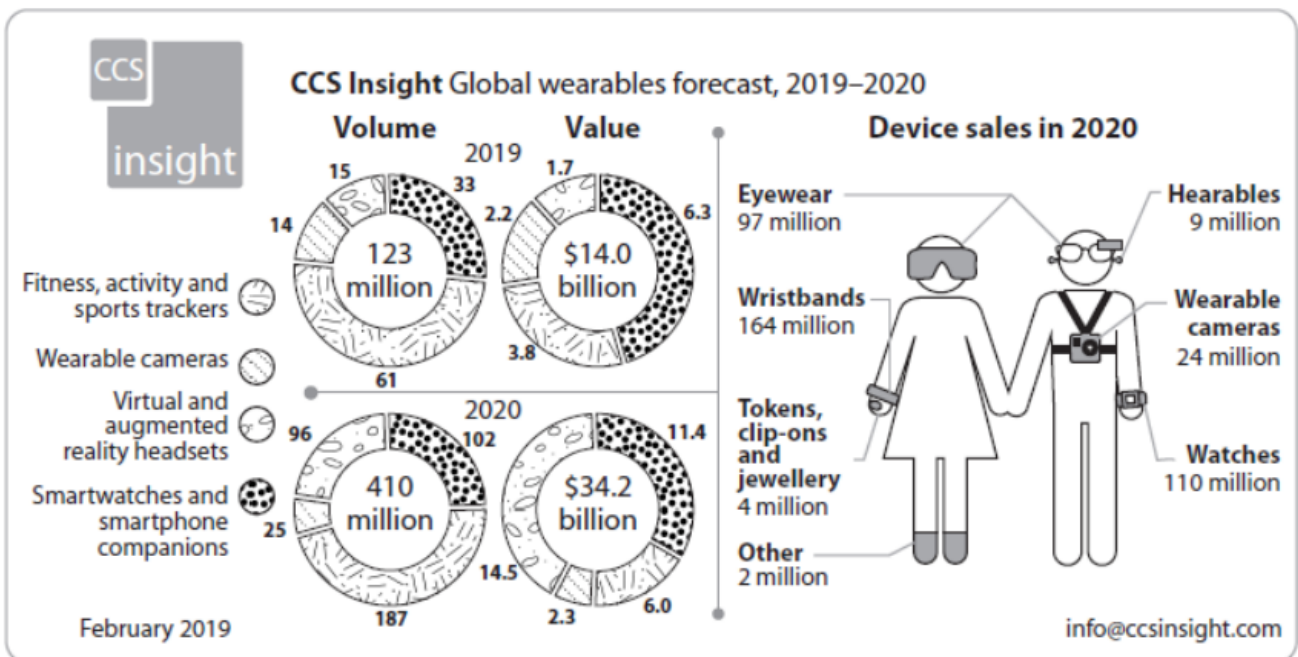


Tended Ltd has developed at a fast rate, from one member of staff to a team of 10 in eight months. It encountered difficulties such as raising finance and it ran out of cash on a few occasions. Tended Ltd also faced development issues, which took months to fix. However, it overcame all of these issues. The staff pulled together as a team, worked into the early hours of the morning and constantly innovated and took risks, enabling the business to stay agile and continue to grow rapidly.

(Source: adapted from <https://www.startupvalley.news/uk/tended-personal-safety-wearables/>)

Extract C

The global technology wearables market



CCS Insight, a market research business, has updated its forecast on the future of wearable technology, indicating that 411 million smart wearable devices, worth a staggering \$34 billion, will be sold in 2020.

CCS Insight claims the industry will achieve sales of \$14 billion in 2019, with wrist-based devices, such as smartwatches and fitness trackers, continuing to dominate. Its forecast states half of all wearable technology sales over the next 12 months will be from these devices, with smartwatches making up 50%.

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Ben Wood, Chief of Research at CCS Insight, commented: "Given the falling consumer interest for smartphones, it is little wonder so many companies are chasing the rapidly growing opportunity presented by this dynamic market."

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(Source: adapted from <https://www.forbes.com/sites/paullamkin/2016/02/17/wearable-tech-market-to-be-worth-34-billion-by-2020/#192e2d113cb5>)

Tended Ltd has constructed the decision tree below to help it decide whether to develop a new smartwatch or launch a new marketing campaign.

