



General Certificate of Secondary Education
2010

Candidate Name

Centre Number

Candidate Number

Business Studies B

Higher Tier



G3702

[G3702]

MONDAY 7 JUNE, MORNING

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Candidate Name, Centre Number and Candidate Number in the spaces provided at the top of this page.

Write your answers in the spaces provided in this question paper.

Complete in blue or black ink only.

Do not write in pencil or with a gel pen.

Do not use correction fluid to correct errors in your answers.

Do not write any answer outside of the black box.

Answer **all five** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is **105**, including a maximum of 5 marks for quality of written communication.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

You are reminded of the need for accurate spelling, punctuation and grammar.

Calculators may be used.

5989

Examiner Number

For Examiner's use only	
Question Number	Marks
1	
2	
3	
4	
5	
QWC	

Total Marks	
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M A Y 1 0 G 3 7 0 2

CONTEXT

Mike Smith and Mary Dwyer set up their business as a private limited company in 1985 when they opened their first pizza take-away shop in Manchester. The two friends had experienced high quality pizzas whilst on holiday in the USA and were determined to offer a similar quality product in the UK.

Their first shop was very successful and within two years they had opened a further three outlets in the Manchester area. They were keen to expand throughout the UK and realised that offering their business as a franchise was the quickest way to achieve this aim.

In 1988 they sold their first franchise to a family friend who opened a unit in Leeds. Within three years they had sold fifteen franchises and the business was booming. In order to fund further expansion they floated the business on the stock exchange in 1993. It became M&M plc.

The business venture prospered and by 2009 the chain had 600 franchised sites throughout the UK.

Each site is licensed to a franchisee at an average price of £250,000. For this sum franchisees receive a fully equipped outlet and three weeks training plus on-going support. This support includes advertising on both national TV and in national newspapers.

The Directors of M&M plc are determined to carry on expanding. Their aim is to open an additional forty franchises every year until 2018. They are investigating an on-line ordering facility for all franchises. They plan to expand abroad and have decided to open their first pizza shop in France.

The Directors of M&M plc are also keen to diversify and are considering opening a number of sandwich bars in London.



Question 1

M&M plc has a number of business objectives. Three of these objectives are listed below.

- (a) Choose the most appropriate strategy from the three listed below to achieve each of these objectives. Each strategy can **only be used once**.

A	Objective	To maximise customer satisfaction	1	Strategy	Search out cheaper suppliers of raw materials
B	Objective	To increase market share	2	Strategy	Launch a massive TV advertising campaign
C	Objective	To make a profit	3	Strategy	Offer consumers a guaranteed refund if a pizza is not delivered within 30 minutes of placing an order

Objective**Strategy**

A

B

C

[3]

Examiner Only

Marks

Remark



Question 1 continued

The founders of the M&M plc business chose to expand by selling franchises.

- (b) Explain **one** advantage to M&M plc from choosing to expand their business by offering franchises.

Advantage _____

 _____ [2]

M&M plc are the franchisor. Individuals that purchase an M&M franchise are known as franchisees.

- (c) Explain **two** ways in which a franchisee is supported by the franchisor.

1 _____

 _____ [2]

2 _____

 _____ [2]

Examiner Only

Marks

Remark



Question 1 continued

In 2009 the UK economy went into recession and as a result unemployment rose.

- (d) Explain how this might have affected the sales and profitability of a typical M&M plc franchise.

[3]

Franchises in Central London rely heavily on tourists, with sales to Americans accounting for 15% of trade.

- (e) In 2009 the £ sterling fell from \$1.90 to \$1.55. How might this fall have affected the number of American visitors to London?

[2]

Examiner Only

Marks	Remark



Question 1 continued

Below (**Fig. 1**) is a section of the organisation chart for M&M plc.

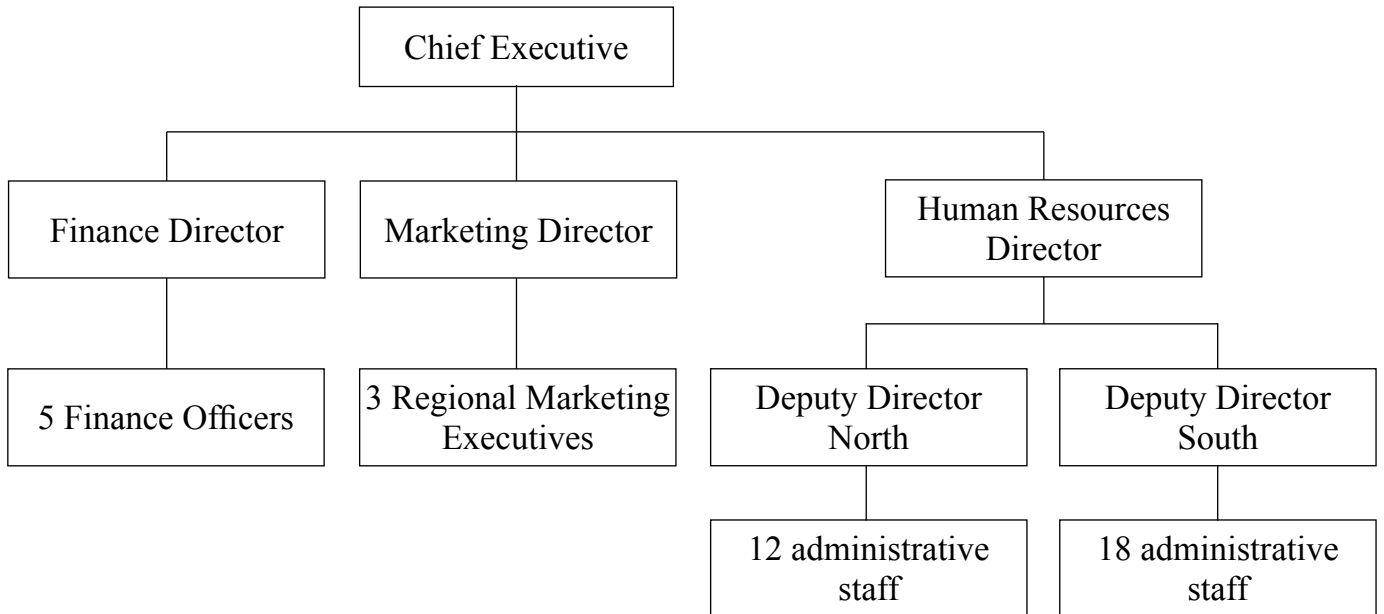


Fig. 1

- (f) Explain the term **span of control**, using an example from the organisation chart above.

[3]

Examiner Only	
Marks	Remark



Question 1 continued

- (g) Explain the term **chain of command**, using an example from the organisation chart to support your explanation.

[3]

Examiner Only

Marks Remark

Total Question 1

[Turn over

Question 2

Examiner Only	
Marks	Remark

(a) The M&M plc Human Resources Department appoints new employees by following the processes listed below:

- A place advertisement
- B design advertisement
- C produce job description
- D shortlist applicants
- E draws up person specification

The first process has been completed for you. Sort the remaining processes into their correct order and list the **next four** by letter in the boxes below.

1	<input type="text" value="C"/>
2	<input type="text"/>
3	<input type="text"/>
4	<input type="text"/>
5	<input type="text"/>

[4]

Individuals that purchase an M&M plc franchise are known as franchisees.

(b) One M&M plc franchisee wants to recruit a worker for their pizza shop. Below is a list of points the pizza shop owner has drawn up about the person wanted and the job itself.

- A The successful applicant will report directly to the manager
- B The successful applicant must have a clean driving licence
- C The successful applicant will work a 35-hour week
- D The successful applicant must have previous experience

Place these under the correct headings below by writing the letter in the boxes below:

Person Specification

<input type="text"/>
<input type="text"/>

Job Description

<input type="text"/>
<input type="text"/>

[4]



Question 2 continued

Examiner Only

Marks Remark

- (c) A franchisee wants to train the new worker. Discuss whether he/she should train the worker by using **on-the-job training** or by **off-the-job training**.

[4]

A franchisee may, from time to time, have to dismiss a member of staff or make them redundant.

- (d) State **two** differences between the dismissal of workers and redundancy.

1 _____

[1]

2 _____

[1]



Question 2 continued

Maslow identified **five** stages in his Hierarchy of Needs. These are:

- physiological needs
- safety and security needs
- love and belonging needs
- esteem needs
- self-actualisation needs

Anya has just started work in an M&M plc franchise. She is paid well above the **minimum wage**. She has a full-time contract. She works as part of a team. She enjoys this more than her previous job where she worked on her own most of the time. At her recent appraisal meeting her poor time keeping was noted.

(e) Identify **three** of Maslow's stages that are being satisfied for Anya. Explain the reasons for your choices.

1 _____ [1]

Reason _____

 _____ [1]

2 _____ [1]

Reason _____

 _____ [1]

3 _____ [1]

Reason _____

 _____ [1]

Examiner Only	
Marks	Remark
Total Question 2	



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Question 3

- (a) One franchise has a cash flow problem. Choose the **two** most appropriate sources of finance to deal with this problem, by ticking the relevant boxes below:

- debentures
- overdraft
- factoring
- leasing

[2]

Below (**Fig. 2**) is an extract from the M&M plc Balance Sheet.

	£m
Fixed assets	750
Current assets:	
Stock	25
Debtors	15
Bank	10
Current Liabilities:	
Overdraft	30
Creditors	10

Fig. 2

Examiner Only	
Marks	Remark



Question 3 continued

Examiner Only

Marks Remark

(b) Explain, using an example, the meaning of the term **fixed assets**.

[3]

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid Test Ratio} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

(c) Using the formulae provided and the figures from the Balance Sheet (Fig. 2 opposite) calculate:

The current ratio

Show your workings

=

[1]

The acid test ratio

Show your workings

=

[1]

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[Turn over

Question 3 continued

The Directors of M&M plc have decided to go ahead with their plan to open a chain of sandwich bars. These sandwich bars will not be franchised. M&M plc has decided to open and run all of these businesses.

It needs to raise £8m to finance the first phase of this development, which will see ten sandwich bars opened in Central London.

They can finance this development by either:

- taking out a bank loan which they will repay over 12 years
- a new issue of shares.

(d) Advise the Directors as to which source of finance should be chosen. Explain why you believe this is the better option. Explain your reasons for not choosing the other option.

Source of finance chosen _____

Reasons for choosing _____

_____ [3]

Examiner Only	
Marks	Remark



Question 3 continued

Source of finance not chosen _____

Reasons for not choosing _____

_____ [3]

Examiner Only**Marks****Remark****[Turn over**

Question 3 continued

Below is an extract from The Trading and Profit and Loss accounts of two M&M plc franchises.

Franchise A	2006	2007	2008
Sales	£450,000	£495,000	£600,000
Gross Profit	£300,000	£330,000	£400,000
Overheads	£210,000	£225,000	£250,000
Net profit	£90,000	£105,000	£150,000

Franchise B	2006	2007	2008
Sales	£750,000	£775,000	£780,000
Gross Profit	£500,000	£500,000	£501,000
Overheads	£360,000	£380,000	£400,000
Net profit	£140,000	£120,000	£101,000

(e) Examine the tables above.

Compare the performance of these two franchises using details from the accounts to support your assessment. Which franchise is performing better?

The better franchise is _____ [1]

Reasons _____

Examiner Only	
Marks	Remark



Question 4

The Directors of M&M plc are considering developing their website. The main improvement will be to allow customers to order and pay for pizzas online.

(a) Explain **two** benefits to M&M plc from this improvement.

1 _____

 _____ [2]

2 _____

 _____ [2]

M&M plc take great care in setting the prices for their pizzas.

(b) Describe **two** factors that influence the prices they charge.

1 _____

 _____ [2]

2 _____

 _____ [2]

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Examiner Only	
Marks	Remark



Question 4 continued

M&M plc intends to expand its pizza franchises into France.

(c) Assess **three** problems they will face with this expansion that would not arise if they were expanding in the UK.

1 _____

_____ [2]

2 _____

_____ [2]

3 _____

_____ [2]

Examiner Only	
Marks	Remark



Question 4 continued

The sandwich market in London is dominated by two successful chains of shops. M&M plc's new sandwich bars will offer a similar standard of product to the two established rivals.

The M&M plc Directors need to decide on a pricing strategy for these new bars. They have narrowed their choice down to three strategies:

- penetration pricing
- price skimming
- destroyer pricing

(d) Select the most appropriate strategy. Justify your choice and explain why the other strategies were rejected.

Selected strategy _____ [1]

Reasons for your choice _____

_____ [3]

Examiner Only	
Marks	Remark



Question 4 continued**Reasons for not choosing the other strategies****Strategy not selected** _____**Reason** _____

_____ [1]

Strategy not selected _____**Reason** _____

_____ [1]

Examiner Only**Marks** **Remark**

Total Question 4

[Turn over

Question 5

Examiner Only	
Marks	Remark

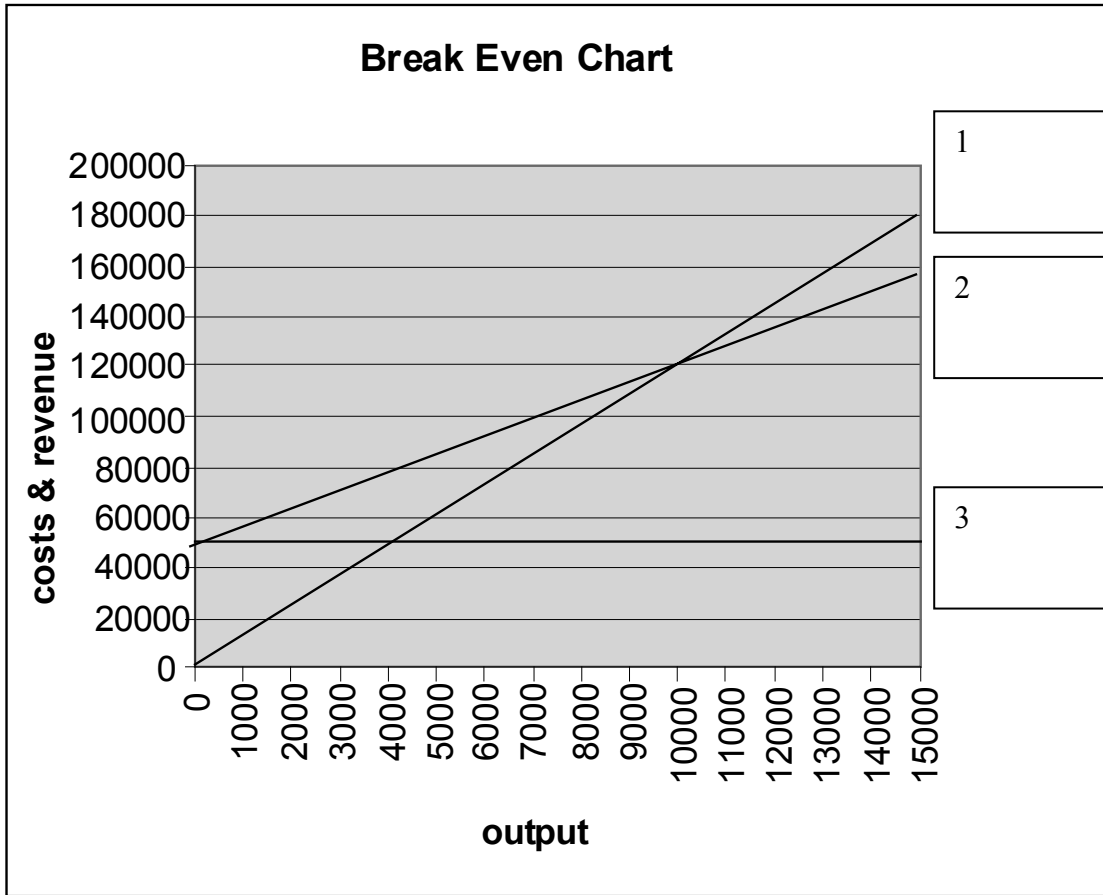


Fig. 3

(a) Label the **three** lines on the break-even chart (**Fig. 3**) using three of the labels listed below:

- Total Costs
- Total Sales
- Total Revenue
- Total Fixed Costs

[3]

(b) How many pizzas need to be sold to break even?

_____ [1]



Question 5 continued

(c) How much sales revenue is raised if the business sells 15,000 pizzas?

_____ [1]

(d) How much profit is made if the business sells 14,000 pizzas?

_____ [1]

(e) Calculate the firm's margin of safety if the business makes and sells 14,000 units. Show your working.

_____ [2]

Show your workings here:

Examiner Only**Marks** **Remark**

Question 5 continued

Franchise owners realise a quality product on its own is not enough to ensure their franchise succeeds. They believe a quality service is also necessary if customers are to return.

- (f) Describe **two** ways in which the business can ensure that workers provide a quality service to customers.

1 _____

_____ [2]

2 _____

_____ [2]

Examiner Only	
Marks	Remark



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Question 5 continues overleaf

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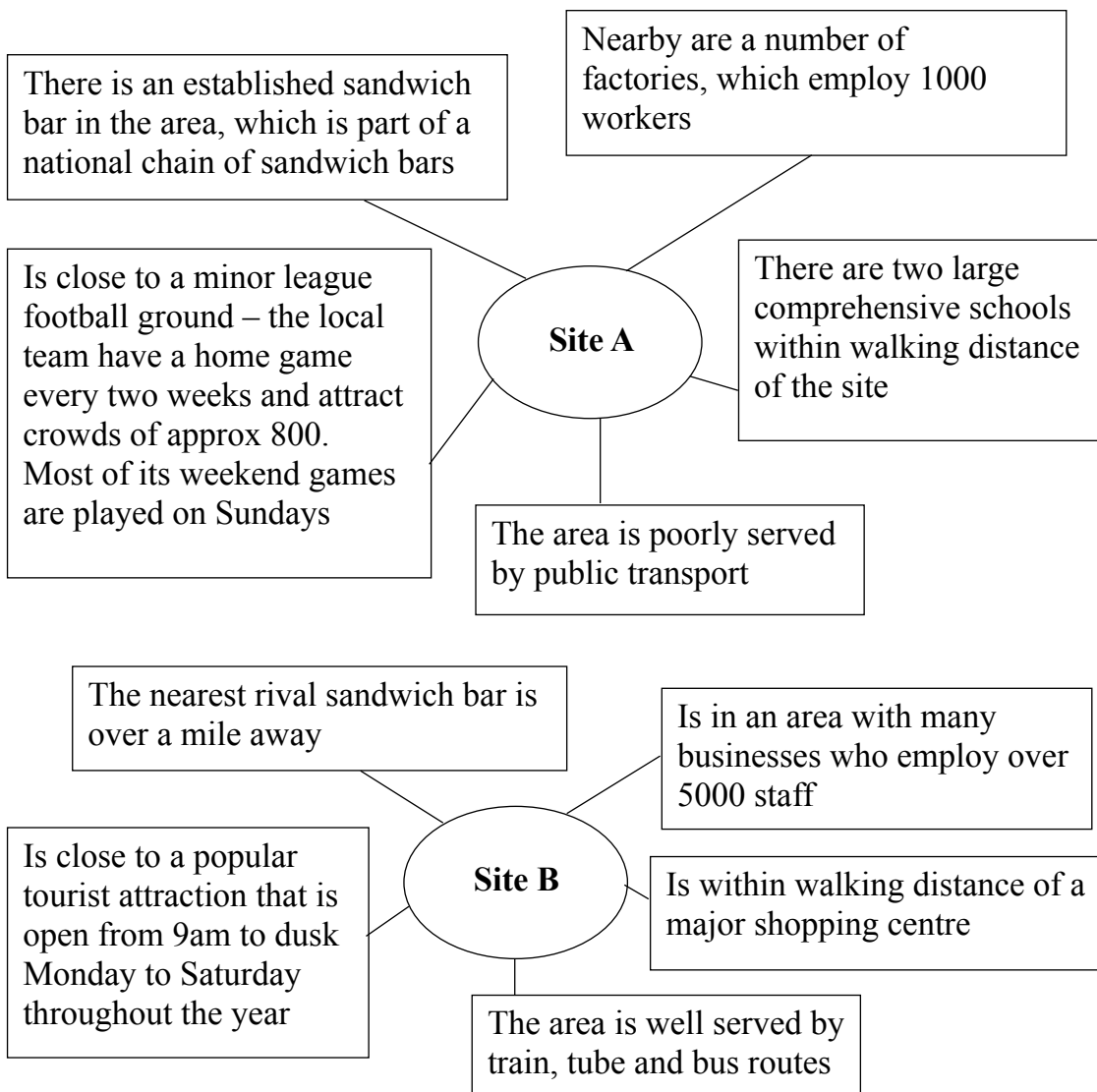


Question 5 continued

The Directors of M&M plc are considering two sites for their first sandwich bar. This will be open 6 days a week – closed on Sundays.

Market research suggests that:

- 75% of sales made Monday to Friday will come from people working within walking distance of the sandwich bar; 25% will come from people shopping locally
- 50% of sales on Saturday will be from shoppers at other stores and 40% from tourists
- 95% of customers will visit the shop on foot



Examiner Only

Marks Remark

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Question 5 continued

- (g) Choose the better site. Explain **four** reasons why the site you chose is the better site.

Chosen site _____

Reasons _____

1 _____

_____ [2]

2 _____

_____ [2]

3 _____

_____ [2]

Examiner Only	
Marks	Remark



Question 5 continued

4 _____

_____ [2]

Examiner Only	
Marks	Remark
Total Question 5	
Quality of Written Communication	

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