GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Business Studies

International Advanced Subsidiary
Unit 1: Business Enterprise

Friday 18 May 2018 – Afternoon
Time: 1 hour 30 minutes

Paper Reference
WBS01/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Fast food chain *McDonald's* consistently reaches number one in the Top 100 Global Franchise Rankings.

(a) Which **one** of the following is an advantage of buying a *McDonald's* franchise?

(1)

A Using an established brand name

B Making all your own decisions

C Finding your own suppliers

D Keeping all the profits

Answer ☐

(b) Explain why this answer is correct.

(3)

(Total for Question 1 = 4 marks)

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2 Footwear retailer *schuh* sells branded leisure, sport and fashion shoes for men, women and children.

(a) The **most likely** reason for *schuh* to use market segmentation is to

(1)

A limit the range of products being offered

B reduce the need for market research

C more effectively target its market

D avoid the need to advertise

Answer ☐

(b) Explain why this answer is correct.

(3)

(Total for Question 2 = 4 marks)

3 *Marketing Sciences Ltd* specialise in carrying out product trials for other companies such as *Tesco*, *GlaxoSmithKline* and *Vodafone*.

(a) Businesses carry out product trials on new products in order to

(1)

A guarantee sales levels

B assess levels of demand

C achieve economies of scale

D collect secondary research

Answer ☐

(b) Explain why this answer is correct.

(3)

(Total for Question 3 = 4 marks)

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4 In 2016, David Hay started his own business, *Hays Gardening and Landscapes*. David was previously an employee of another business.

(a) What was the opportunity cost for David when he started his business?

(1)

A Cost of marketing to attract customers

B Loss of earnings from employment

C Payment of taxes on profits

D Risk of business failure

Answer ☐

(b) Explain why this answer is correct.

(3)

(Total for Question 4 = 4 marks)

5 In 2016, UK corporation tax was 20%.

(a) Initially a decrease in corporation tax will **most likely** lead to

(1)

A increased retained profit

B decreased employee wages

C decreased fixed costs

D increased selling price

Answer ☐

(b) Explain why this answer is correct.

(3)

(Total for Question 5 = 4 marks)

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6 In 2016, 49% of the food grain crop in the state of Karnataka (India) failed due to a lack of rainfall.

(a) Which **one** of the following would be the **most likely** impact of the food grain crop failure?

(1)

A A shift in the supply curve of food grains to the right

B A shift in the supply curve of food grains to the left

C A movement along the supply curve for food grains

D A decrease in the price of food grains

Answer ☐

(b) Explain why this answer is correct.

(3)

(Total for Question 6 = 4 marks)

TOTAL FOR SECTION A = 24 MARKS

SECTION B

Answer ALL questions in this section.

You should spend 60 minutes on this section.

Evidence A: Hamdi Ulukaya, *Chobani*, Inc, United States



Turkish-born entrepreneur Hamdi Ulukaya founded his company *Chobani* in 2005. He launched *Chobani* Greek Yogurt, which is now the best-selling brand of yogurt in the US.

In 2009, Hamdi signed a major deal with leading US grocery wholesaler *Costco*. Today *Chobani* has more than 2,200 employees, annual sales of nearly $1bn and sells its products in the US, Australia and the UK. *Chobani*'s newest US factory is the largest yogurt factory in the world.

(Source: adapted from http://www.ey.com/gl/en/about-us/entrepreneurship/entrepreneur-of-the-year/world-entrepreneur-of-the-year---past-winners---hamdi-ulukaya)

Evidence B: A start-up without outside investors

Hamdi's passion for the yogurt of his boyhood in Turkey and the availability of an old yogurt factory led to the start of *Chobani*. Hamdi states:

"I've always loved yogurt—the thick kind my mother made on our family's dairy farm in Turkey. When I moved to the US, I found American yogurt too sugary and watery. If I wanted yogurt, I made it myself at home. So, when I came across an advert offering a fully equipped yogurt factory for sale at just $1m I was interested. I knew that many of the machines in the factory would have cost more than $1m if purchased new.

At that point, I did not have enough money to buy the factory, so I borrowed the money. After *Chobani* started producing yogurt, further expansion was financed by taking out more bank loans and reinvesting profits. This is a crucial piece of the *Chobani* story. Our ability to grow without reliance on external investors, like venture capitalists, was vital to our success.

Today, *Chobani* is a $1bn business, and I remain the sole owner."

(Source: adapted from https://hbr.org/2013/10/Chobanis-founder-on-growing-a-start-up-without-outside-investors)

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Evidence C: Planning for success



Hamdi states "To buy the yogurt factory, I got a bank loan backed by the US government's Small Business Administration (SBA). I spent two days writing a business plan, offered a personal guarantee and put up 10% of the purchase price. The bank and the SBA put up the other 90%, with a low interest rate and a 10-year term.

I immediately hired a master yogurt maker from Turkey and spent the next two years perfecting our thicker, low sugar recipes with new flavours such as chocolate cherry and caramel pecan.

We worked hard to get the packaging right. American yogurt is sold in containers with narrow openings. European yogurt containers are wider and that's what I wanted for *Chobani*— to indicate that the product inside was very different.

We insisted *Chobani* was sold in supermarket chains rather than specialty shops and stocked in the dairy aisle, alongside existing yogurt brands. That's probably the single most important decision we made. A rival brand had been selling Greek yogurt in specialty shops since the mid-1990s. But due to limited distribution, it remained a tiny niche market. We wanted *Chobani* to be accessible to everyone. If we had said yes to early offers from specialty shops, the company never would have grown as quickly as it did.

I decided the price per unit we would need to charge to break even, with sales of 20,000 cases a week, by calculating the costs of our packaging, ingredients and labour. It meant if customers liked our product, we would quickly be profitable and could reinvest our profits in growth. A lot of new companies would have launched at a lower price and tried to raise the price later. I avoided that by figuring out an initial price that made long-term sense."

(Source: adapted from https://hbr.org/2013/10/Chobanis-founder-on-growing-a-start-up-without-outside-investors)

Evidence D: My mission

Hamdi states "A few months after we started, I began getting calls from private investors. Most said we would need much more cash if we really wanted to grow. They also said we would benefit from having experienced managers and strategists to help us as we grew larger.

This was all new to me. I did not know what venture capital was. I had no strategy for dealing with potential investors. But Greek yogurt was becoming so popular, bigger companies like *Danone* and *Yoplait* were planning their own versions. We needed to grow quickly to prevent established companies from stealing the market we had created.

The more I thought about it, the more confident I grew. Most of our early decisions had been right. Besides money, what exactly would these people bring to the business? Venture capital investors want to take their cash out in five to seven years and would probably push us to sell *Chobani* to a big food company. Eventually I simply stopped returning calls from potential investors.

Bigger competitors did bring their own Greek yogurts to market, but much more slowly than expected. When I first tasted one, it was so terrible I thought it must have been spoiled. I even wondered whether the company was deliberately making its Greek yogurt taste terrible to turn off consumers and so preserve the profits of its established brands of sugary yogurt. The quality and flavour of our yogurts are key to our success."

(Source: adapted from https://hbr.org/2013/10/Chobanis-founder-on-growing-a-start-up-without-outside-investors)

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7 Explain **two** benefits to Hamdi of being the sole owner of the company.

(Total for Question 7 = 6 marks)

8 (a) Explain **two** reasons why Hamdi might have prepared a business plan for the company.

(6)

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(b) Explain **two** features of *Chobani*'s products that give it a competitive advantage.

(6)

(Total for Question 8 = 12 marks)

9 The following information is an extract from *Chobani*'s Statement of Income for the Year Ending 30 April 2017.

Extracts	**$million**
Total revenues	1 340
Cost of sales	(676)
Gross profit	664
Expenses	(224)
Profit for the year	440

(a) Using the above information, calculate *Chobani*'s profit for the year margin to one decimal place. (Show your working.)

(4)

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(b) Assess the benefits to *Chobani* of offering its products to a mass market.

(8)

(Total for Question 9 = 12 marks)

10 Assess the suitability for *Chobani* of using a cost-plus pricing strategy.

(12)

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(Total for Question 10 = 12 marks)

11 Evaluate Hamdi's decision to use bank loans, rather than venture capital, as a source of finance for company expansion.

(14)

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(Total for Question 11 = 14 marks)

TOTAL FOR SECTION B = 56 MARKS
TOTAL FOR PAPER = 80 MARKS

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