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.
- Answer the questions in the spaces provided
  - there may be more space than you need.

Information

- The total mark for this paper is 90.
- The marks for each question are shown in brackets
  - use this as a guide as to how much time to spend on each question.
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  - you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.
- A calculator 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.
SECTION A

Answer ALL questions. You should spend 40 minutes on this section.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☐ and then mark your new answer with a cross ☒.

1 (a) The product life cycle in Figure 1 shows sales of a product over time. What is Phase 2 called?

Select one answer.

☐ A  Growth
☐ B  Decline
☐ C  Maturity
☐ D  Introduction

(b) Outline one way a business might extend the life cycle of a product.
(c) (i) State **two** methods of collecting market research information. (2)

1

2

(ii) Explain **one** reason why a business might collect market research information. (3)

(Total for Question 1 = 8 marks)
In 2012 the InterContinental Hotels Group (IHG) became the first chain of hotels to pay its London workers a minimum of £8.30 per hour. At the time this was £1.99 above the minimum wage. IHG estimated that this would increase the pay of 97% of its workers. IHG hoped that by paying its workers more than the legal minimum wage both motivation and productivity would improve. It was hoped that other hotel groups such as Hilton and Travelodge would follow IHG's lead.

(Source: adapted from http://www.corporateresister.com/news/item/?n=136 accessed on 28/11/12)

(a) Which of the following best describes the term productivity?

Select one answer.

It is the:

☐ A  number of products made that pass quality control.
☐ B  range of products made by a business.
☐ C  amount of products one worker can make in an hour.
☐ D  total output of a business.

(b) State three methods, other than increasing wages, that IHG could use to motivate its workers.

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3
(c) Explain one benefit to IHG of increased worker motivation.

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The London hotel market is very competitive. IHG offers a loyalty card to its customers that rewards them with points for each stay. These points can then be exchanged for a free night in any IHG hotel.

(d) Explain one advantage to IHG of high levels of customer loyalty.

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(Total for Question 2 = 10 marks)
National Express runs coaches to over 900 destinations in the UK. To travel, customers book tickets on the company website that they then print off. This allows National Express to cut its costs and remain competitive with other types of transport such as cars and trains.

(Source: adapted from http://www.nationalexpress.com accessed on 14/12/12)

(a) Which of the following is most likely to increase the revenue of National Express?

Select one answer.

☐ A  Higher number of passengers
☐ B  Lower fuel costs
☐ C  Employ more coach drivers
☐ D  Less spending on advertising

(b) State two methods that National Express could use to encourage people to try its products.

1
2

National Express has received poor feedback about unhelpful staff and rude coach drivers.

(c) Explain one disadvantage to National Express of providing poor customer service.
The inter-city coach market, between places such as Leeds and London, is very competitive. *National Express* has to compete with train companies as well as other coach operators such as *Megabus* and *Citylink*. Prices for some coach tickets start from as little as £1.

(d) Describe why reducing costs could allow *National Express* to remain competitive.
Starbucks is an American coffee shop chain with over 600 outlets in the UK. Each coffee shop sells a range of drinks such as Mochas and Frappuccinos. In the UK, Starbucks competes against rivals such as Costa Coffee and Caffé Nero, as well as many small independent cafes and coffee shops.

(Source: adapted from http://starbucks.co.uk accessed on 16/12/12)

4 (a) Which of the following is most likely to result in an immediate improvement in Starbucks’ cash flow?

Select one answer.

☐ A Increased productivity
☐ B Smaller margin of safety
☐ C Paying suppliers later
☐ D Repaying a bank loan

(b) Outline one method Starbucks could use to differentiate its coffee from that of its rivals.
In 2012 Starbucks was accused by the pressure group UK Uncut of finding legal ways of paying less tax to the UK government. UK Uncut argued that Starbucks was not behaving in an ethical way.

(c) Explain one possible disadvantage to Starbucks of not behaving in an ethical way.

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(d) In order to reduce the impact of pressure group activity, *Starbucks* considered two options.

**Option 1:** Do nothing.

**Option 2:** Agree to pay the UK government more tax.

Which of these two methods do you think would be more effective in allowing *Starbucks* to maintain high levels of profit? Justify your answer.

(Total for Question 4 = 12 marks)

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TOTAL FOR SECTION A = 40 MARKS
SECTION B

Answer ALL questions.

You should spend 30 minutes on this section.

Read the following passage carefully and then answer questions 5 and 6.

Elvis & Kresse produces wallets made from waste fire hoses, which would normally be thrown away by fire brigades at the end of their working life. The design mix is important to Elvis & Kresse and each wallet produced is put through a strict quality control process. In recent years the brand has become very popular as consumers become more concerned about environmental issues.

Each wallet is made almost entirely from waste fire hoses and Elvis & Kresse uses renewable energy in its production process. However, Elvis & Kresse is based in Central London and this can cause deliveries of raw materials to be slow. Elvis & Kresse also exports its wallets by plane to countries such as Japan and the USA.

In the last few years, the Elvis & Kresse brand has become very popular, selling to celebrities such as Cameron Diaz. As a result, the company has expanded its product mix to include belts and cufflinks – all made out of recycled waste. Each item is sold at a premium price, with wallets retailing for as much as £75.

(Source: adapted from http://www.elvisandkresse.com/index.html accessed on 16/12/12)
5 (a) What is meant by the term **quality control**?

(b) Outline one method *Elvis & Kresse* could use to improve the quality of its products.

(c) Explain one advantage to *Elvis & Kresse* of selling its wallets at a high price.
(d) State one possible advantage and one possible disadvantage to the environment from Elvis & Kresse's business activities. For each, explain the likely effect on the environment.

(8)

Advantage

Explanation

Disadvantage

Explanation

(Total for Question 5 = 15 marks)
6 (a) What is meant by the term **design mix**?

(b) (i) Identify the level (in kgs) of the buffer stock held by *Elvis & Kresse* during December 2012.

(ii) Calculate the weight (in kgs) of delivery A. Show your workings.
(iii) Calculate the length of time (in days) it took for delivery B to arrive, after it was re-ordered. Show your workings.

(2)

*Elvis & Kresse* hold buffer stocks of raw materials, such as waste fire hoses.

*(c)* Assess the benefits to *Elvis & Kresse* of holding large stocks of raw materials.

(8)

(Total for Question 6 = 15 marks)

TOTAL FOR SECTION B = 30 MARKS
Beats by Dr Dre is a leading headphone brand owned by Beats Electronics. The company was set up in 2006 by hip-hop artist Andre ‘Dr Dre’ Young. The company has expanded rapidly by issuing new share capital. This has allowed mobile phone manufacturer HTC to build up a 51% stake in Beats Electronics. Raising share capital has allowed Beats Electronics to build a global headphone brand quickly through the use of promotional activities such as paying Justin Bieber to become a company ambassador. This has allowed it to compete successfully against existing headphone brands such as Panasonic and Sony.

Beats by Dr Dre headphones are marketed to young people who want better quality headphones than the ones that are packaged together with MP3 players such as the iPod. Beats Electronics uses the slogan ‘people aren’t hearing all the music’ to highlight that its headphones allow listeners to hear music in exactly the same way that artists do when they record a track in a studio. By producing a quality product, Beats Electronics can sell its headphones for as much as £350.

(Source: http://www.marketingweek.co.uk/news/beats-by-dr-dre-eyes-uk-for-growth/4004694.article accessed on 28/12/12)
7 What is meant by the term **brand**?

(Total for Question 7 = 2 marks)

8 Outline one benefit to *Beats Electronics* of building ‘a global headphone brand’.

(Total for Question 8 = 2 marks)
*9 Discuss the advantages to *Beats Electronics* of using new share capital to fund its expansion.
*10 Using your knowledge of business, assess the importance of the product to Beats Electronics when developing a competitive marketing mix.