Centre Number						Candidate Number				
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Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	

General Certificate of Education
Advanced Subsidiary Examination
January 2011

Business Studies BUSS1

Unit 1 Planning and Financing a Business

Monday 10 January 2011 1.30 pm to 2.45 pm

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 15 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- Questions 2(b) and 2(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend about 20 minutes answering Question 1.

Read the **case study** and then answer the questions that follow.

Tom's Hairdressing Salon

For five years, Tom had run a mobile hairdressing business. He operated as a sole trader, specialising in the niche market of children's hairdressing at home. Tom's approach, of visiting customers in their homes, had helped to build up a loyal customer base and also kept his costs low. This approach had attracted customers as it eliminated the time needed for them to travel to a salon and pay for car parking.

Unfortunately, Tom was not making enough profit, partly because customers expected to pay low prices. He decided to apply, and was accepted, to set up a hairdressing salon as a part of the national *Joshua* franchise, which targeted adults rather than children. A national survey showed that the *Joshua* trademark and brand were recognised and admired by over 60% of adults in the UK. Tom believed that being a *Joshua* franchisee would enable him to increase his prices, attract more customers and fulfil his aim of making more profit.

As a *Joshua* franchisee, Tom estimated that his sales revenue would increase dramatically within a year. In addition he would:

- be guaranteed that no other *Joshua* franchise could operate within a radius of eight miles of his salon
- benefit from *Joshua*'s national advertising campaigns and established brand name
- be able to sell *Joshua* brand hair products. The *Joshua* franchise had patented a number of original hair products that were amongst the UK's leading brands
- earn profit from magazine sales. *Joshua* owns the copyright of the UK's leading men's hair magazine, a publication that was available only through *Joshua* franchisees.

Tom had identified a location for his new salon in a small shopping centre on the estate where he lived. The rent was low and the parents of many of his customers said that they would use him if he located there. However, *Joshua* insists that its franchisees locate their salons in city centres. Although established competitor franchisees, such as Toni and Guy, are located here, customer numbers are 50% higher in these locations.

Tom did not want to spend too much money on market research. Consequently, his estimates of costs were based on figures provided by *Joshua*. The sales revenue estimates were based on a magazine article that featured two central London *Joshua* franchisees.

For Tom, the main benefit of being a *Joshua* franchisee was the relatively high average level of spending per visit by customers. Because of the franchise's reputation and high sales of hair products, such as shampoos, Tom forecast that the average customer would spend £15.60 per visit. He believed that he would have variable costs per customer visit of £5.10 in 2011. He was expecting to reduce his variable costs by 10% in 2012. Based on information from the franchisor and a survey of a small random sample of local people, Tom estimated that he would get 7700 customers in the first year.

Tom took a careful approach to completing his cash flow forecast because he believed it was the most important part of planning a business start-up. His first draft had revealed a huge cash deficit throughout the first year of trading. This was caused mainly by the high start-up costs before the business could commence. As a result, Tom decided to rent his salon rather than buy it outright, although he was surprised at the high rents charged for city centre premises. These were 60% higher than premises outside the city centre. However, customers paid 30% more per visit to city centre salons. His cash flow forecast had also indicated that he would be short of cash and so he decided that he would need a bank loan and a larger overdraft. His amended cash flow forecast is shown in **Figure 1**.

Figure 1: Tom's cash flow forecast for the first three years of trading as a Joshua franchisee

	2011 **£**	**2012** **£**	**2013** **£**
Cash inflow (all cash sales)	120 120	130 260	140 400
Cash outflows	102 270	101 327	104 310
Net cash flow	17 850	28 933	36 090
Opening balance	(39 000)	(21 150)	7 783
Closing balance	(21 150)	7 783	43 873

Tom had three main concerns about buying the rights to a *Joshua* franchise:

- high payments for the rights to be a franchisee meant that fixed costs would be £63 000 per annum
- the patent on *Joshua*'s most popular hair product was due to expire within the next three years
- after 15 years of growth, *Joshua*'s market share had declined over the past two years.

Turn over for the questions

Answer **all** questions in the spaces provided.

You are advised to spend no more than **20 minutes** on Question 1.

1 (a) What is meant by the term 'random sample' (line 34)?

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(2 marks)

1 (b) State the formula for calculating 'market share' percentage (line 50).

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(2 marks)

1 (c) Tom believes that the level of spending per visit by his customers will stay the same in 2011 and 2012. Based on the information in the case study, how many customers is he anticipating in 2012?

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(3 marks)

Do not write outside the box

1 (d) Tom expects variable costs per customer visit to fall by 10% between 2011 and 2012. Calculate the change in his break-even number of customers between 2011 and 2012 as a result of this fall in variable costs.

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(7 marks)

1 (e) Explain **two** problems that Tom might face as a result of moving away from his original niche market.

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(6 marks)

Extra space ....

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20

Turn over ▶

Do not write outside the box

2 (a) Analyse the benefits of *Joshua* protecting its business ideas and products.

(10 marks)

Extra space

2 (b) Was *Joshua* right to insist that Tom located his salon in the city centre? Justify your view.

Turn over ▶

(15 marks)

Extra space

2 (c) To what extent do you think that Tom's cash flow forecast will help to guarantee the success of his *Joshua* franchise?

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(15 marks)

Extra space

40

END OF QUESTIONS

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ANSWER IN THE SPACES PROVIDED

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