



*Rewarding Learning*  
**ADVANCED SUBSIDIARY (AS)**  
General Certificate of Education  
2022

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# Business Studies

Assessment Unit AS 2  
*assessing*  
Growing the Business



\*SBU21\*

**[SBU21]**

**TUESDAY 7 JUNE, MORNING**

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## TIME

1 hour 30 minutes.

## INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.  
Answer **both** questions.

## INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in Question 1 parts (c) and (d) and Question 2 parts (c) and (d).

Quantitative skills will be assessed in Question 1 parts (c) and (d) and Question 2 parts (a), (b) and (d).

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

Any workings should be clearly shown since marks may be awarded for partially correct solutions.

## ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

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Read the following information and answer the questions that follow.

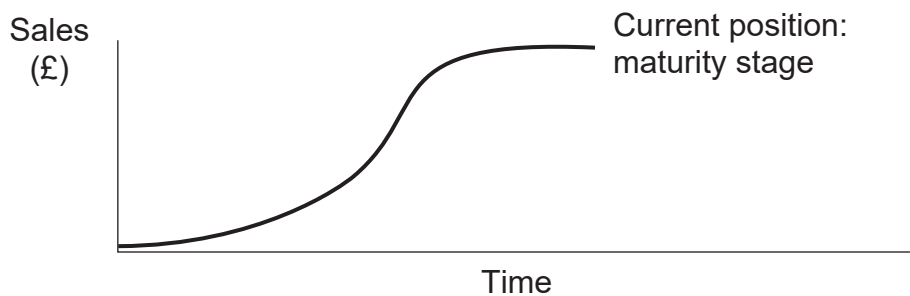
1

### Soundex

Soundex is a family-owned partnership business that manufactures portable speakers for use with mobile phones and other digital music devices. It was set up five years ago by two brothers, Joseph and Robert O'Donnell. Soundex employs 26 workers. It has a modern, well-equipped factory with many of its production machines purchased within the last two years.

Soundex manufactures a single model of portable speaker – the LUX1. This is described in the sales literature as a robust party-starter – wireless, waterproof and with a surprisingly good sound for its size. The speakers are sold throughout the UK mainly through national supermarket chains and also via the business website.

Joseph O'Donnell considers that the LUX1 has now reached the maturity stage of its product lifecycle. He presented this information, shown in **Figure 1** below, at a recent managerial meeting and said that the business now had to either come up with a new model of speaker or consider extension strategies to stop the decline in sales.



**Fig. 1: Product lifecycle for the Soundex LUX1**

Joseph is concerned about competition in the marketplace and wants to bring out a new model that his team has been developing, the SUPERTEC 2. This will have new innovative features such as voice recognition, streaming options and longer battery life which its closest competitor, Blast Speakers Ltd, does not offer.

Joseph now wants to carry out some primary market research to find out which of these features customers regard as being most important. He has drawn up a questionnaire that he intends to distribute to 2000 people from his sales database, which contains records from 20 000 customers. Joseph plans to use random sampling which leads to unbiased results by giving every customer an equal chance of being sampled.

Robert O'Donnell is also keen to get the SUPERTEC 2 into production. To date, £1 million has been spent on research and development. He wants to find out what price customers might be willing to pay as he is currently investigating three possible pricing strategies that Soundex might use for the new model – skimming, penetration or cost-plus pricing.

At present the business is experiencing some cashflow difficulties as it is still repaying loans taken out to finance the purchase of the machinery. One of the existing lorries has required a lot of servicing recently and urgently needs replacing. The new lorry will cost £40,000 to buy. A cashflow forecast might be used to help decide when best to buy the new lorry and help to obtain finance.

At the same time, Robert realises that the launch costs of the new model are likely to be considerable. Promotion costs have been estimated at £20,000 for the first three months. He realises that he will need to take the time and effort to produce a new cashflow forecast for Soundex, even though it is very difficult to estimate future costs and revenues.

- (a) Explain the **maturity stage** of the product lifecycle, using Soundex as an example. [4]
  
- (b) Analyse **two** reasons why random sampling might be used by Soundex to carry out effective market research. [8]
  
- (c) Analyse the **three** pricing strategies that Soundex might use for its new product. [10]
  
- (d) Evaluate the importance of a cashflow forecast to Soundex. [18]

Read the following information and answer the questions that follow.

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## Cfit

Liam Fisher graduated from university six years ago with a degree in electronics and, with limited start-up capital, set up a small business making fitness trackers. His business, Cfit, now employs 20 workers and manufactures a range of fitness trackers which it currently sells in six different countries.

Although this is a very competitive market, Cfit has been very successful due to its environmentally friendly brand image. This has enabled it to charge a premium price for its trackers.

Liam's main focus has tended to be on the manufacturing side of the business. Cfit only has a small marketing team and many sales are made using overseas sales agents. Claire White, the newly appointed finance manager of Cfit, believes that now is the time for the business to undertake a major expansion in order to stay competitive in the future. In particular, she would like to see Cfit enhance its marketing through the use of social media. She believes that this will allow Cfit to improve its market research, promote its new products more effectively and reach a global market 24/7 by generating new leads through these channels.

Claire wants Cfit to take out a further bank loan of £10,000 to help fund this expansion. Liam is aware that the business is already paying back a substantial bank loan of £30,000 which it used to pay for a recent television advertising campaign.

As a method of increasing short-term revenue, Liam suggested an immediate 10% decrease in the price of all fitness trackers in Cfit's range. He argued that this would immediately increase sales and bring in more revenue which could then be used to pay back the existing bank loan.

Claire disagreed, saying that it was not as simple as that. She explained that the effect on sales and revenue would depend upon the Price Elasticity of Demand for the products. To support her argument, she supplied Liam with information relating to the Price Elasticity of Demand for two of Cfit's trackers – the Trax Base and the Trax Max. This is shown in **Table 1** opposite.

**Table 1: Price Elasticity of Demand (PED)\* and sales data for the Trax Base and Trax Max**

Tracker model	PED*	Elasticity	Original selling price	Sales per month	Sales revenue
Trax Base	0.7	inelastic	£20	20 000	£400,000
Trax Max	1.6	elastic	£30	5 000	£150,000
			Following 10% decrease in selling price	Sales per month	Sales revenue
Trax Base	0.7	inelastic	£18	21 400	£385,200
Trax Max	1.6	elastic	£27	5 800	£156,600

Claire has supplied Cfit's financial ratios covering the last two years. Some of these are shown in **Table 2** below.

**Table 2: Financial information relating to Cfit for 2021 and 2022**

Financial Ratios	2021	2022
Return on Capital Employed (ROCE)	10.6%	11.1%
Net Profit Margin	6.3%	7.8%
Current Ratio	1.9 : 1	1.2 : 1
Gearing Ratio	41%	57%

Claire hopes that these will be useful in determining strategy options in the future.

- (a) Explain what is meant by a **bank loan**, using an example from the case study. [4]
- (b) Use **Table 1** to analyse the impact on sales revenue of Cfit decreasing its prices by 10% for **each of the two** trackers. [8]
- (c) Analyse **three** ways by which Cfit might use social media to enhance its marketing. [10]
- (d) Evaluate the business performance of Cfit using the ratios shown in **Table 2**. [18]

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**THIS IS THE END OF THE QUESTION PAPER**

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