



Pearson

# Examiners' Report

## June 2017

GCE Business 9BS0 03

## Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at [www.edexcel.com](http://www.edexcel.com) or [www.btec.co.uk](http://www.btec.co.uk).

Alternatively, you can get in touch with us using the details on our contact us page at [www.edexcel.com/contactus](http://www.edexcel.com/contactus).



### Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit [www.edexcel.com/resultsplus](http://www.edexcel.com/resultsplus). Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

### Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: [www.pearson.com/uk](http://www.pearson.com/uk).

June 2017

Publications Code 9BS0\_03\_1706\_ER

All the material in this publication is copyright  
© Pearson Education Ltd 2017

# Introduction

This report should be used by centres in order to provide teachers and candidates with further guidance as to how to approach questions. It could be used as one of the tools, together with the mark scheme, to support teachers and help candidates maximise their ability to score marks in future exam series.

This report is focused on the synoptic paper 9BS0-03 'Investigating business in a competitive environment' which accounts for a 30% subject weighting for A Level Business. It therefore tested candidates' knowledge and understanding across themes 1 to 4 as well as their application, analytical and evaluative abilities. The context for the paper was the health and fitness industry and the private businesses operating in this market, both in the UK and internationally. This was shared with centres in November 2016 to enable candidates to undertake research in the following areas:

- trends in the number and size of health and fitness clubs in the UK over the last 10 years, including organic business growth and takeovers.
- influences on the market for health and fitness clubs and gyms, such as social trends.
- changing costs and membership prices.
- the facilities and services provided by private health clubs, such as swimming pools, aerobic classes, racquet courts, saunas and therapy.
- the range of private health and fitness clubs that operate in the market, in the UK and internationally.
- Human Resource Management in the UK health and fitness industry.

Section A examined the business aspects of the industry as a whole, whilst Section B focussed on the business of Pure Gym.

This was the first year of the new exam format and despite being made up of eight levels of response questions, which required structured answers for candidates to demonstrate the high order skills of analysis and evaluation, it was generally well tackled. Stronger candidates were able to draw upon the range of evidence provided across the paper or, their own research to provide conclusions and often perceptive recommendations.

However, some candidates appeared to be challenged by the demands of the paper, sometimes struggling to distinguish, for example, between entrepreneurial roles and characteristics or opportunity cost and trade-offs.

Generally, candidates performed better in answering questions in Section A than in Section B. Often this was down to a lack of knowledge and understanding of corporate culture (2(c)) and/or accounting ratios (2(d)).

There was little evidence that candidates ran out of time as most were able to answer all eight questions; with almost half the entry continuing their responses on additional answer sheets.

## Question 1 (a)

Candidates were expected to assess two possible examples of trade-offs, present them with chains of reasoning and then balance their answers by explaining why they might not be trade-offs. Some candidates confused opportunity cost with trade-off, but nonetheless managed to present appropriate examples. Less able candidates simply paraphrased or copied what was in Extract A, but then did not provide assessments. Stronger candidates considered the short and long run, often explaining that whilst, for example, the sale of protein bars or tied in memberships might boost revenue and profits in the short term, this might not be the case in the longer term once clients chose not to buy or indeed cancel their memberships in favour of a competitor.

Less able candidates simply described an example of being ethical and an example of how a club like Virgin Active might achieve more profit. The stimulus material gave candidates several examples to use, however, some candidates used their own examples – such as paying lower wages may be unethical, yet help boost profits. Several candidates made assertions that being ethical always reduced profit. Being the first question on the paper, some candidates appeared to spend a lot more time on this question than was advisable.

Despite opening with a definition of opportunity cost, rather than trade-off, this candidate went on to provide a concise and coherent assessment of both examples.

- 1 (a) Assess **two** possible examples of trade-offs between profit and ethics for a health and fitness club.

(8)

A trade-off is when a business chooses ~~and~~ one option ahead of another option as ~~it may be~~ the business may be ~~at~~ unable to do both. This is linked to opportunity costs. For example there is an opportunity cost for a health and fitness club that may focus on profit rather than focusing on ethics within business.

One example of a trade off is when a member of a gym wants to achieve a certain goal. ~~to~~ This may be wanting to get in shape for a marathon within a month. However, this ~~no~~ goal may be unrealistic but because the personal trainer wants to earn money that may be in the form of commission, the personal trainer may not tell the gym member that the goal is unrealistic. ~~As a result, the gym member~~ This is so that the fitness club makes profit. As a result of this, the gym member may be at risk of harming themselves if they do exercises that are too strenuous. This is

of harming themselves, if they do exercises that are too strenuous. This is a breach of trust between the gym member and the fitness club. Therefore the brand image of the business as well as the integrity of staff may be damaged, leading to lower profits.

Another example is that in an effort to maximise profits health and fitness clubs may ~~try~~ hold gym members to long term contracts even though gym members wish to leave. As a result of this, relationships between the business and members may be damaged. Therefore, health and fitness clubs may find that there is a high ~~to~~ rate of turnover of members who leave fitness clubs. This will negatively impact profits.



### ResultsPlus Examiner Comments

The first trade-off is explained as the personal trainer wishing to earn commission against the ethics of a fitness goal which is unrealistic. The candidate acknowledges that it could also lead to lower profits if there is a breach of trust between trainer and client.

The second trade-off is explained as long term contracts to maximise profits against member's flexibility which may cause them to eventually leave and so ultimately 'negatively impact profits'.

A balanced response across two examples of trade-offs, written in context.



### ResultsPlus Examiner Tip

Use of paragraphs by the candidate made the presentation of the two trade-offs stand out.

Candidate presents two trade-offs: minimum wage to support profit maximisation versus an ethical 'fair days' wage; likewise cheaper supplies for the cafe or ethical Fair Trade supplies.

1 (a) Assess **two** possible examples of trade-offs between profit and ethics for a health and fitness club.

(8)

One example of trade-offs between profit and ethics for a health and fitness club is employee salary. A business either pays employees the minimum wage in pursuit of profit maximisation, or is ethical and pays all employees a fair days wage. Paying them ethically is the better option as it would lead to the satisfaction and motivation of the staff at the health and fitness club, and therefore the overall success of the club as a business.

A second example of a trade-off between profit and ethics is suppliers pay. If a club has extra amenities such as a cafe, then they will need suppliers for that cafe. A health and fitness club can either be unethical and buy the cheapest raw materials from suppliers but charge customers high prices for it, or be ethical and buy fair trade materials and pay a fair price for them, also charging a fair price for them. Overall, being ethical is always the better option when wanting to maximise profits.



**ResultsPlus**

**Examiner Comments**

Each trade-off is described but not assessed.



**ResultsPlus**

**Examiner Tip**

To assess, the candidate needed to provide balance for both options.

## Question 1 (b)

Sales forecasting is essentially about predicting income, which is based on sales volume and prices. Most candidates were able to express the idea that sales forecasting helped to identify future income which then allowed the business to plan expenditure. Many candidates explained the benefit of sales forecasting by referring to the data from across the Extracts provided, e.g. Virgin Active's 96 Clubs or the 13.7% membership growth rate, or by referring to the need to equip clubs with sufficient staff and equipment such as treadmills or free weights. Stronger candidates recognised that being able to predict revenues might help Virgin Active to manage its cash flow accordingly. Less able candidates confused sales forecasts with cash flow forecasts and included comments regarding the prediction of costs. Those who did explain the benefits of sales forecasting to a club like Virgin Active were not always able to offer any balance in context, such as the detrimental effects of new competitors like Pure Gym on predicted revenues.

Very descriptive response which shows some knowledge and understanding but fails to answer the question. Level 2 – 3 marks.

(b) Assess the usefulness of sales forecasting to a health and fitness club, such as Virgin Active.

(10)

Sales forecasting is a process whereby companies try to predict how much sales they will make in a given period in order to plan for the future.

I feel that sales forecasting is very useful to Virgin Active. As we know; Virgin Active are in the luxury sector of the market and focus a lot of innovation. The case study also shows that they give every single benefit to workers in the list which means they treat employees well. I feel it is very useful because according to Porter's Generic Mix; Virgin Active are trying to use the product differentiation route in order to gain a competitive advantage and as we know; this comes at a high cost and the benefits to employees are another very high cost for Virgin. Sales forecasting will lead to Virgin being able to predict their revenue over time and this can help them plan costs accordingly based on the



forecast. Therefore; business failure can be avoided as they can make sure that along with their costs; they can still make a good profit margin to and have good cash flow. I feel that sales forecasting may not be as useful to Virgin active. As we know; any forecast is based on business predictions and what they think the market will be like. I feel it is not as useful because if these predictions are too high; it could lead to costs being higher than revenue. Therefore; a loss could be incurred which could lead to business failure for Virgin Active.



### ResultsPlus Examiner Comments

Refers to predictions and avoiding business failure. Appears in paragraph three to confuse sales forecasting with cash-flow forecasting



### ResultsPlus Examiner Tip

Candidates should take time to read the question carefully and use the data provided in the Extracts to show effective use of context.

Effective opening with clear definition, well applied and provides balance. However, no conclusion. Level 3 – 8 marks.

(b) Assess the usefulness of sales forecasting to a health and fitness club, such as Virgin Active.

(10)

Sales forecasting is a prediction on the demand of services the company is expecting, this enables the company to prepare for this demand and meet supply.

There is a general increase in the market for health and fitness clubs with the UK market value being 4.4 billion in 2016. Due to trends being predicted to continue it is likely that the demand for health and fitness gyms will continue to increase. As a result it would be sensible for virgin Active to use a sales forecast to predict the rise in members they are likely to receive. This may mean that virgin active will need to consider expanding and opening new sites.

However, the recent increase in demand has mainly been taken by low cost, budget gyms, virgin active is a mid-market health and fitness club which have recently been decreasing in size while low cost gyms are increasing. For example Nuffield's acquisition of virgin Active enables Nuffield to expand however as a result virgin Active have been able to focus on luxury.

Therefore the sales forecasts may be useful for virgin active to follow previous trends and focus on methods to ~~expand~~ diversify to other markets to avoid competition with budget gyms. Alternatively

Virgin active may be able to re think their marketing strategy to boost customers.

Overall sales forecasts will be useful for virgin active as they can focus on their demand and improve their profits.



**ResultsPlus**

**Examiner Comments**

'How much equipment or machines they need to purchase for future years' otherwise 'overcrowding... could lead to customers leaving' was balanced with 'trends may die down due to home gyms, videos etc.'



**ResultsPlus**

**Examiner Tip**

Overall judgement is required to access Level 4, 9-10 marks.

## Question 1 (c)

A mixed bag of responses were seen by examiners for this question. A number of candidates mistakenly identified that the price elasticity of demand (PED) value of -2 given meant that clubs in the health and fitness industry faced inelastic demand or were inferior goods. Other candidates were clearly unsure and therefore avoided committing to the impact of PED. They recognised that media campaigns would increase demand to a greater or lesser extent but failed to then link to the question about a change in PED. However, many candidates did recognise that the market was elastic given that it is not a necessity and that there are a number of competing businesses. A few candidates offered perceptive answers in depth recognising that PED may be affected differently depending on the type of health campaign run. Strong answers provided balance by giving good examples of substitutes from fitness DVDs to wearable technology such as Fitbits and demonstrated how that impacted on the elasticity within the market.

In paragraph one, the candidate incorrectly states that a PED of -2 is 'very price inelastic'.

The average price elasticity of demand for clubs in the health and fitness market is estimated to be -2.

(c) Assess the likely impact of media health campaigns on the price elasticity of demand for health and fitness clubs.

(12)

Price elasticity of demand measures the responsiveness of a change in price on demand. An estimate of -2 in the health and fitness industry means that it is very price inelastic, showing that as prices rise, demand is very likely to fall.

Media health campaigns will increase awareness of how important it is to keep fit and healthy. This will encourage more people to hopefully join a gym and seek exercise. An increase in customers joining the gym could increase how dependent they become on the gym and so they

may incorporate it into their daily/ weekly routine. As it becomes more important to them, people will become less bothered by the price to ~~you~~ pay for their contract or for classes so an increase in price will hardly affect the demand for members.

However, too much of an increase in price may steer members away and won't be inviting for any new customers, so their demand will decrease, making it more price elastic, meaning that as price increases, demand decreases.

Overall I think media health campaigns will help price elasticity as it will hopefully increase demand.



**ResultsPlus**  
Examiner Comments

There are elements of knowledge and appropriate application in paragraphs two and three, in particular 'too much of an increase in price may steer members away...making it more price elastic'.

Health campaigns recognised as a means to increase awareness of the need to keep fit and healthy; more of an effect on demand rather than PED.



**ResultsPlus**  
Examiner Tip

Candidates are encouraged to read the stems of questions carefully, where appropriate, before answering the question.

Much better response to illustrate effective grasp of PED concept and its significance in the context of the health and fitness market.

The average price elasticity of demand for clubs in the health and fitness market is estimated to be -2.

(c) Assess the likely impact of media health campaigns on the price elasticity of demand for health and fitness clubs.

(12)

Price elasticity of demand shows us how the demand for goods or service change in relation to a price change.

The average price elasticity for health and fitness clubs is expected to be -2, which means when the price changes (1%), demand ~~go~~ also changes around double that %.

Media health campaigns may help to reduce the price elasticity of demand.

This is because they are likely to stress the importance of keeping fit and healthy.

This may decrease the price elasticity of demand, as it makes people see

that gyms are important to a person's wellbeing especially if they have become

more health conscious due to the campaigns, which would allow gyms to

up their prices a little as people know that fitness is important so

essentially 'don't mind'. However, this may not apply to budget gyms e.g. Pure gym,

people go here because they are cheap so price is their dominating factor

However, media health campaigns ~~on the~~ may not really impact the price elasticity of demand for health and fitness clubs. This is because the media have been constantly campaigning about health for years anyway, people are educated on health issues already but it doesn't mean they'll go to the gym. Overall, media campaigns may have a bigger impact in reducing the price elasticity of the more premium gyms e.g. Virgin active, as they have many facilities to do with health and wellbeing which may be mentioned but it wouldn't ~~effect~~ impact the price elasticity of budget gyms because their biggest selling point is low price, they can't put it up as it's their competitive advantage.



### ResultsPlus Examiner Comments

Opening paragraph demonstrates clear knowledge and understanding of a PED of -2. Second paragraph explains why health campaigns might reduce the value of PED in the market generally and then why this may not apply to budget gyms. Third paragraph explains why media health campaigns might have no effect on PED. Candidate provides a judgement, related to competitive advantage.



### ResultsPlus Examiner Tip

Candidate uses evidence across the paper to respond effectively to the question showing effective synthesis.

## Question 1 (d)

Overall an accessible question which was well answered. The majority of candidates displayed a good knowledge of non-financial methods and financial rewards but a significant proportion of these neither related this to labour turnover nor effectively applied this knowledge to the health and fitness clubs in the extracts. Application was often superficial but the strongest candidates were able to identify that there were a variety of employees in the clubs in terms of occupations, skills and age. As a result, these employees may be less likely to leave that employment if differing non-financial methods and financial rewards were offered. These candidates also clearly understood the need to consider all three aspects of the question and gained access to the higher marks. Less able candidates produced answers that lacked application, for example, a description of job rotation or earning commission but not illustrating this in the context of the health and fitness club industry. Use of Extract D to support answers may have helped here. Some candidates were able to support their answer with the names of theorists such as Taylor and Maslow.

A limited assessment of financial rewards and non-financial techniques, which is not fully developed to provide an effective recommendation. Links to labour turnover are weak, with no developed chains of reasoning.

Health and fitness clubs in the UK have high levels of labour turnover. To reduce this, health and fitness chains could offer either better financial rewards, or use non-financial techniques, to improve employee performance.

(d) Evaluate these **two** options and recommend which one a health and fitness club, such as Fitness First, should adopt to reduce labour turnover.

(20)

Labour turnover, is the amount of staff leaving and joining the workforce.

An advantage Fitness First would gain from offering financial rewards, is that it would place itself alongside over mid market clubs to who, the staff may go work for. For example Virgin Active and David Lloyd both pay the living wage, A benefit Fitness First would gain from paying the living wage is, they may be able to keep their labour turnover low as they can compete with the other companies. However paying the living wage to



employees would increase fixed costs and therefore reduce their operating and net profit. This may mean they will have to increase their membership price or accept lower profits.

A non-financial technique Fitness First could use is, allowing staff to job rotate and have an ~~opport~~ opportunity for job enlargement. A benefit Fitness First may gain from this, is that staff may feel more motivated and are likely to stay. Another benefit gained, is staff are likely to feel more motivated and therefore improve their performance, ~~as~~ which would lead to better customer service, which may become a competitive advantage, increasing membership. However non-financial <sup>benefits</sup> ~~techniques~~ may not be important to the employees, if there is not the ~~flap~~ financial rewards for the employees to sustain a reasonable income.

In conclusion, I ~~still~~ recommend the non-financial technique because it will reduce labour turnover and improve the business. Fitness First is a mid-market/luxury brand and therefore staff motivation and customer service is very important for a good overall customer experience, which the customers are paying for. However my ~~recommendation~~ recommendation depends on if Fitness First is paying a

reasonable wage in which people can live on as this is the bottom of the hierarchy of needs and non-financial techniques and benefits can only be enjoyed and wanted after good pay.



## ResultsPlus

### Examiner Comments

Opening definition of labour turnover is quite vague and inaccurate.

Candidate attempts to assess paying the living wage but does not explain why this would help reduce labour turnover until later (sustain a reasonable income), but merely implied initially by 'compete with other companies'

Counterargument is more a disadvantage to the businesses finances.

Candidate fails to explain why job enlargement or job rotation would make staff feel more motivated.

Acknowledges that Fitness First is a 'mid market/luxury brand' which may affect customer experience, but fails to complete argument in relation to how it may affect labour turnover.



## ResultsPlus

### Examiner Tip

Use of paragraphs may have helped with a clearer presentation of arguments.

Fair introduction followed by an assessment of both options but again lacking effective links to labour turnover rates.

Health and fitness clubs in the UK have high levels of labour turnover. To reduce this, health and fitness chains could offer either better financial rewards, or use non-financial techniques, to improve employee performance.

(d) Evaluate these **two** options and recommend which one a health and fitness club, such as Fitness First, should adopt to reduce labour turnover.

(20)

Labour ~~turnover~~ turnover is all about how quickly staff leave after being employed. Having a high labour turnover means that ~~there~~ a lot of staff leave soon after joining.

One approach to reducing the labour turnover would be to offer better financial rewards. For Fitness First this could involve offering a pension plan and paying the living wage. Introducing a pension plan would mean that employees who want to work in the industry long term may stay at Fitness First for longer and introducing the living wage would mean that people who only want to work for money, for example university students, would stay longer as well. What may be happening is employees who work at Fitness First may move to Virgin Active because they offer a wide range of both financial and non-financial rewards. However by offering these financial rewards it means that Fitness First will have higher costs which could end up seeing a loss in profits and this may deter potential investors.

The other method that Fitness First can take is to use non-financial techniques. These methods may also reduce labour turnover because they allow for the employees

to be more motivated. Ways that Fitness First can do this for example are by introducing job rotation and job enlargement. Job rotation includes employees switching roles within the workplace and by doing this it means they don't get as bored with their job. It could include the people working on the desk to go and lifeguard the pools. Job enlargement includes giving an employee more responsibility by giving them more jobs to do. This would allow for the employee to show off what they can do and it could help them gain a promotion. This would mean that people who want to stay in the industry would be more likely to stay at Fitness First. However ~~using~~ using non financial methods may not work for ~~man~~ every employee because some people may only stay if they were offered more pay.

To conclude using both methods would definitely see a reduction in the labour turnover of Fitness First because it would target the employees who would rather see a financial reward as well as a ~~non~~ non financial. However ~~the~~ introducing both may become very costly.

I would suggest that Fitness First <sup>should</sup> adopt ~~both~~ some aspects of both methods because not only would this reduce the number of staff leaving for financial reasons but also some of the staff who leave for non-financial ones. ~~the~~ ~~the~~ Not implementing either would mean that Fitness First are still paying a lot of money

on training new members of staff. Although ~~the process~~ introducing financial rewards will also reduce costs it may cost less than training new members of staff. One of the reasons why Virgin active may be able to afford all of the benefits is because they operate in the luxury sector of the market whereas fitness first operates in the ~~mid~~ ~~sector~~ middle sector.



### ResultsPlus

#### Examiner Comments

Identifies two financial methods – paying a pension and living wage. Explains the significance of the latter to a university candidate. Evaluates effects on business costs. Attempts to assess the value of job rotation to Fitness First as a motivator to prevent boredom, using the context (people working on the desk and pool lifeguard); does not explain why some people would 'only stay if they were offered more pay'. Identifies why Virgin Active can afford all of its staff benefits but the candidate fails to do anything with the observation. Level 3 – 14 marks.



### ResultsPlus

#### Examiner Tip

Candidates are encouraged to develop chains of reasoning before starting a new point.

## Question 2 (a)

A number of candidates simply lacked the knowledge of entrepreneurial roles to effectively answer this question and the majority of those who did, failed to offer any assessment. Some candidates focused on entrepreneurial traits and characteristics. Sadly, some candidates offered spotting a gap in the market as a role in itself rather than explaining the setting up or development of a business. A good proportion of candidates offered the two roles but some of these were no more than incomplete chains of reasoning and offered little assessment. A small proportion answered fully and with balance – explaining why these roles might not be important. Less able candidates produced descriptive answers of the Peter Roberts story rather than being analytical and addressing the question.

Although the candidate offered innovative and risk taker as characteristics, there is a distinct relationship here with the roles identified in the specification 1.5.1 (c) innovation and 1.5.1 (e) anticipating risk and uncertainty.

- 2 (a) Assess the importance of **two** entrepreneurial roles carried out by Peter Roberts to the success of Pure Gym.

(8)

Peter Roberts carried out important entrepreneurial roles such as being risky as he opened up Pure Gym where there was a saturated market where other businesses were competing against each other to gain market share. Entrepreneurs need to be risk takers and gamble on business ideas which Peter did as he had no experience in the health and fitness sector but decided to open up a gym. However, he found a gap in the market and used it to his advantage.

Peter identified a gap in the market as the gym market was dominated by expensive chains and he decided to open up

a budget gym. This would allow Peter to have a distinctive capability due to its low prices so it could attract more customers and compete with other businesses. However, the health and fitness sector ~~was~~ wasn't a social trend so this investment may have failed.



**ResultsPlus**

**Examiner Comments**

Candidate's knowledge and understanding of innovation was demonstrated through recognising trends of low cost gyms in America and Germany to help adapt and develop Pure Gym. However, this role was not assessed but rather explained. Likewise, the risk taking role was presented but not assessed. Therefore awarded top of Level 2 – 5 marks.



**ResultsPlus**

**Examiner Tip**

Try not to repeat points in 'assess two' eight mark questions.

The candidate opens with definition of entrepreneur which is not required. No entrepreneurial roles are identified by the candidate.

- 2 (a) Assess the importance of **two** entrepreneurial roles carried out by Peter Roberts to the success of Pure Gym.

(8)

An entrepreneur is the person that has an idea and will take the risk to develop this ~~and~~ by getting all the capital required together.

Peter Roberts was able to spot a gap in the market and take a risk by investing into Pure Gym. This was essential towards the success of Pure Gym because if Peter Roberts wasn't able to find that market gap and follow his idea ~~was~~ Pure Gym would have had no success.



**ResultsPlus**  
Examiner Comments

Candidate simply describes what Peter Roberts did, with no specific analysis or assessment of a role other than asserting 'take a risk by investing in Pure Gym'.



**ResultsPlus**  
Examiner Tip

Two roles need to be assessed, not described.



## Question 2 (b)

There were a range of responses to this question. Some were superficial and not particular to emerging economies – so failed to gain a good level three mark or above. Sometimes the factors offered applied to any expansion rather than to emerging economies so achieved limited marks. However, many candidates were able to offer good analytical perspectives of relevant factors such as infrastructure, cultural differences and limited disposable income. However, many of these did not offer any assessment. Less able candidates considered any overseas market to be an emerging one. Some candidates also wrote about the benefits of selling overseas rather than the factors that might limit the success of this strategy.

There was a poor attempt to answer this question, which focuses on 'experience and knowledge of the market' and mentions 'initial costs'. Initial costs would be a limiting factor in any expansion, not just overseas.

When choosing to expand overseas, there are a number of factors that may limit the success of this strategy.

(b) Assess the likely importance of these factors to Pure Gym's expansion into emerging markets, such as those in Asia, South America or Africa.

(10)

Emerging markets are <sup>new</sup> markets experiencing ~~near~~ rapid growth.  
One factor limiting success of expansion is risk. Pure Gym have little experience and knowledge on how markets in Africa work and so it is unlikely that they will be able to compete with competitors. The safer way to expand internationally is to buy a competitor in the emerging market. This means they will have experience and knowledge of the market making success more likely and reducing risk. However initial costs may be high and so this could restrict the rate of growth that Pure Gym is able to achieve.



### ResultsPlus Examiner Comments

Emerging markets definition is vague. Only two limiting factors presented but not in context and only one is analysed. No balance.



### ResultsPlus Examiner Tip

Candidates are encouraged to use the relevant evidence from the Extracts to score beyond Level 2.

Candidate essentially evaluates one limiting factor – culture/tastes and preferences.

When choosing to expand overseas, there are a number of factors that may limit the success of this strategy.

(b) Assess the likely importance of these factors to Pure Gym's expansion into emerging markets, such as those in Asia, South America or Africa.

(10)

An emerging market is one which has growing GDP but ~~is not yet~~ has still has larger room for growth.

One factor that may limit the success of expanding overseas is the differences in culture or result in a difference response to the effective UK business model. By holding a ethnocentric approach & not changing the model to fit different cultures, Pure Gym may limit its number of sales (memberships) & high cost for example the ~~the~~ strong demand for a technological based gym focusing around the internet for membership & classes may not be of benefit for Africa who may prefer a more human approach to signing up and going to the gym, which they are more acquainted with in some ways as they are still emerging in a technological sense. However, being that they are emerging markets could mean Pure Gym is tapping into a niche of ~~is~~ a new kind of gym which is low-cost & involves around technology. This

differentiation is known as market development on the Ansoff's matrix & could result in large market share due to lower competition than in the saturated market of the UK.

~~Barriers to entry are also factors to consider when considering moving overseas. Many countries have high protectionism in order to protect domestic businesses from foreign MNC's & so have in place barriers such as high tax or difficulty in entry. However, this factor would not be as important in an emerging markets as there will be little competition.~~

Low demand is another factor to consider in an emerging market. As it is emerging, it means there is no initial need or demand for the service in comparison to setting up in a saturated market such as the USA where low cost Gyms are of high popularity and demand. Cash flow may be slow at first due to lack of demand, however as it is emerging it means Pure Gym will be the first to acquire the rewards when popularity of low cost gyms begins to become a social trend in the market due to lack of competitors.



**ResultsPlus**

**Examiner Comments**

Appreciates the significance of ethnocentricity, in explaining why the human approach might be preferred by customers in Africa over the technological approach.  
Provides balance for this in recognising that this would mean lower competition compared to the saturated market of the UK.



**ResultsPlus**

**Examiner Tip**

The stem and question stated factors, therefore candidates should have presented at least two factors, argued with balance, and provided a judgement in relation to Pure Gym.

## Question 2 (c)

Clearly the most challenging question on the paper for some candidates, who struggled to analyse and evaluate the cultural issues affecting the takeover. Often candidate responses tended to be about takeover issues in general, such as the rebranding of LA Fitness, so scored few marks. There were some perceptive answers highlighting the tensions between gym staff in an upmarket gym having to cope with a more mass market approach. Some candidates were able to use business appropriate terminology e.g. Charles Handy – types of culture, or showed how Pure Gym might go about changing the culture, either through effective leadership, mentors, shared training or other integration methods.

The candidate identifies staff resistance to change and the nature of LA Fitness 'mid tier service' as possible difficulties.

(c) Assess whether Pure Gym is likely to overcome the possible difficulties of changing LA Fitness's culture, as a result of the takeover.

(12)

A takeover is when one company buys another one to take control.

One difficulty they will have to face is LA Fitness's <sup>staff</sup> resistance to change.

Because Pure Gym only has two members of staff at each site there is likely to be many people let go. The remaining staff could be resentful and therefore perform poorly and damage the company reducing profits.

However, this can be overcome through well used management of the takeover.

If they can convince the staff that the change isn't a bad thing scenario they may not show a great amount of resistance.

Another difficulty of changing the culture is that they may lose customers<sup>s</sup>

who were committed to 'LA fitness' mid tier service. The new sights could & therefore see a reduction in demand and therefore revenue.

Despite this Pure Gym has already established a strong brand. Therefore

any lost customers will likely be replaced by new ones which prefer the ~~self service style of gym~~ minimalist style of gym.



### ResultsPlus

#### Examiner Comments

The candidate explains how staff resistance may be tackled, but accepts that a loss of customers may be necessary given a 'minimalistic style of gym'. Chains of argument are not really developed and only one difficulty is explained. Level 2 - 4 marks.



### ResultsPlus

#### Examiner Tip

The candidate's response may have benefited with a definition of what is meant by corporate culture rather than a definition of takeover.

The candidate identifies the demotivation difficulty caused by job losses at LA Fitness and communication problems.

(c) Assess whether Pure Gym is likely to overcome the possible difficulties of changing LA Fitness's culture, as a result of the takeover.

(12)

Pure Gym took over LA Fitness in the hope of synergy. This is when they become more efficient with LA Fitness. However to do this Pure Gym will need the staff of LA Fitness to adapt to Pure Gym's culture. This can become complicated as it may also mean for every job there may be 2 staff now that two companies have become one. This can lead to demotivation as people may think they could get fired. This will damage productivity. They can overcome this by relocating staff into new roles or by adding a few choices of command.

Another difficulty can be culture clashes where staff from LA Fitness don't adapt or don't want to adapt to the new culture which can lead to huge problems such as a damaging reputation because if staff aren't working the way you want them to work it doesn't look good on you. It can also lead to a lack of communication as the new staff may

not get along with the old staff which can damage efficiency and productivity however can be fixed with teamworking and team exercises.

To conclude there are many difficulties such as culture clashes when it comes to takeovers however most problems can be fixed quite easily it just needs a lot of attention from managers.



**ResultsPlus**

**Examiner Comments**

Solutions are presented, such as reallocating staff to new roles or adding a few chains of command and team working/team exercises but closes with an assertion 'can be fixed quite easily...'. Therefore Level 3 - 5 marks.



**ResultsPlus**

**Examiner Tip**

Candidates are advised to start their responses to assessment questions by identifying the issues/factors first, then assessing each one in turn before providing a judgement.



## **Question 2 (d)**

Some candidates clearly found this question very challenging. Responding to structured evaluate and recommend questions is about candidates presenting developed chains of reasoning and balance. The strongest candidates were able to use the relevant ratios and data provided to offer a concise and insightful chain of reasoning addressing all three factors. This was however, once again a problem for some candidates in that the responses were not always linked back to growth and so were limited in the marks achieved, usually to L2, as the question was not answered with development and assessment. As only one set of accounts appeared the ratio analysis focus was all about the Gym Group and not LA Fitness. However, there was enough information in the stimulus material to present a balanced argument and draw a conclusion. More able candidates were able to gain credit for identifying why the financial data for LA Fitness may have provided a more rigorous assessment. Some candidates were able to calculate financial information to support their argument, however, some responses featured the wrong units e.g. liquidity ratios as a percentage, failed to notice a loss had been made or created their own ratios. Stronger answers tried to say how the financial position might help Pure Gym assess if there were problems with the Gym Group, rather than simply saying it is better / worse than the previous period. The majority of candidates found a middle ground using some data and offering some basic chains of reasoning applied to the businesses with some assessment of all three factors and therefore usually achieving the L3 marks.

Candidates were expected to use the financial and non-financial information provided across this section of the paper in order to provide an effective assessment and recommendation. Accounting data was provided for The Gym Group but not LA Fitness, which was recognised by stronger candidates who argued that, in order to make a more robust assessment and recommendation, such data would be necessary.

Stronger candidates also pointed out that the CMA ruled against a merger of The Gym Group with Pure Gym rather than a takeover.

In 2016, had it not been for the Competition and Markets Authority, Pure Gym may have been able to reach its target growth by taking over The Gym Group, rather than LA Fitness. → £60-£80m) Acid Test / Current / Gearing / ROCE

(d) Using the data in Extracts G and H calculate appropriate accounting ratios for The Gym Group and, using other non-financial information, evaluate these two options.

Recommend which company it would have been better for Pure Gym to take over to achieve its growth target.

	2014	2015	(20)
Current Ratio = $\frac{C.A}{C.L}$	$\frac{9933}{24656} = 0.40:1$	$\frac{8636}{25546} = 0.34:1$	
R.O.C.E = $\frac{O.P.}{E_q + N.C.L}$	$\frac{102657}{23378} = 4.4:1$	$\frac{17641}{4355} = 4.05:1$	$\frac{2335}{103657} = 2.25\%$
<del>Acid Test</del>	<del><math>\frac{8636 - 1973}{25546}</math></del>	<del><math>\frac{-2701}{117641} = -2.3\%</math></del>	

In the last year, The Gym Group's current ratio has decreased 6%. This suggests that they cannot pay for as much with their current assets now, as back in 2014. This means that acquiring The Gym Group may ~~decre~~ struggle to pay with their current assets within the business, which is to be expected for a membership based payment business.

Similarly, the return of capital employed has fallen, from 2.25% to -2.3%, which may be due to the lost profit last year. This suggests that they could afford to repay spent capital with money extra, but this changed over the next annum.

However, The Gym Group's shareholder funds have increased by over £75,000,000, suggesting people believe the business is more profitable.

Secondly, The Gym Group have around 60 more stores than LA Fitness, giving PureGym a large access to the market, increasing number of customers targetted, and gyms located near them, increasing revenue, and profit margin.

Furthermore, The Gym Group are in the same market segment of low-cost / low-budget gyms, meaning the cheaper culture will already be embedded.

This saves time and costs from ~~the~~ LA Fitness gym who would require a more time to finish.

Finally, it is unlikely that The Gym Group would require a £20 mil refurbishment job for each site, saving variable costs for the period.\*

In the short term, it would be more beneficial to choose The Gym Group, because of the cheaper refurbishment costs, and the increasing number of stores compared to LA Fitness. However, in the long term, since the ~~past~~ past years figures shown decline, then LA Fitness may be the better choice, due to steady profits.

Despite all this, it would be more beneficial to takeover ~~the~~ The Gym Group, as they can offer a larger growth for the cheaper / better financial gain.

However, the CMA have already prevented this takeover from happening previously, and may not

go ahead, depending on laws around the time  
Furthermore, if either company can develop a  
stronghold abroad (i.e. Asia/South America) then  
they would become more appealing to PureGym.

(Total for Question 2 = 50 marks)

\* meaning the growth  
expansion would be cheaper.

TOTAL FOR SECTION B = 50 MARKS

TOTAL FOR PAPER = 100 MARKS



### ResultsPlus Examiner Comments

Candidate presents accurate current ratios and ROCE for 2014 and 2015 and correctly calculates the change as 6% in the current ratio. Provides an assessment of The Gym Group based on ratios and other information, offers a recommendation but arguments could have been better developed for and against LA Fitness. Level 3 – 14 marks. Acknowledges that profitability for The Gym Group has fallen given ROCE as -2.3% in 2015 compared to 2.25% in 2014. Does not explain why shareholders funds expanding by over £75m might suggest why people believe the business is more profitable or why this would make the merger more attractive.

The Gym Group option is supported by the acquisition of 60 more clubs than LA Fitness, without the need to pay for £20m refurbishment costs enabling cheaper growth, whilst steady profits for LA Fitness are identified.

Recommendation suggests expansion to Asia or South America but candidate does not explain why.

Overall the candidate developed chains of reasoning, but lacks balance and therefore only an attempt at a recommendation which is not well supported: Level 3 – 14 marks.



### ResultsPlus Examiner Tip

Recommendations should be based on the market, objectives, economic situation or nature of the service provided. For example, the poor ratios of Pure Gym suggest that cash flow and profitability may not be sufficient to support such a merger or takeover in a highly competitive market.

## Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

Successful candidates in this paper

- stuck closely to the requirements of the question posed and were able to apply these effectively to the relevant business in the evidence.
- made sure they had a sound understanding across the specification content in Themes 1 to Theme 4 so they could apply this with more confidence to the questions – this is particularly the case with the quantitative skills questions 1(c) (price elasticity of demand) and 2(d) (ratio analysis and business growth).
- appeared to pay attention to the command words and the respective mark allocations to be able to write appropriate and succinct responses.

Less successful candidates in this paper

- did not apply answers to the relevant business in the evidence, leading to generic answers lacking context.
- may not have managed their time effectively, leading to overly long answers to 8 mark questions, possibly at the expense of 12 and 20 mark questions.
- did not show enough understanding of specification content and terminology. Specifically: trade-offs, entrepreneurial roles, corporate culture, and emerging markets. Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the examination.

## Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>



Pearson Education Limited. Registered company number 872828  
with its registered office at 80 Strand, London WC2R 0RL.

Ofqual  
.....



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

