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**Pearson Edexcel**  
**Level 3 GCE**

Centre Number

Candidate Number

**Business**  
**Advanced**  
**Paper 3: Investigating business in a competitive environment**

Friday 23 June 2017 – Afternoon <b>Time: 2 hours</b>	Paper Reference <b>9BS0/03</b>
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<b>You must have:</b> Insert (enclosed)	Total Marks
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### 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.
- There are two sections in this question paper.
- 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 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- You may use a calculator.

### 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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Answer ALL questions.

SECTION A

Read the following extracts (A to D) before answering Question 1.

Write your answers in the spaces provided.

**Extract A**

**Ethics in the UK health and fitness club industry**

The nature of a health and fitness club can lead to a number of potential ethical problems. Many fitness clubs rely on memberships for much of their revenue, getting customers to sign contracts that commit them for a period of months - even years.

Members trust staff to help them achieve their fitness goals. If a member joins who is overweight, out of shape and wants to compete in a triathlon in a month, a personal trainer's response should be to point out that the goal might be unrealistic. The trainer should instead suggest a less challenging activity, or a longer time frame. 5

Where a club is given an incentive to promote the sales of a particular product line, such as an energy bar, the potential reward must not lead to staff overstating the product's benefits. 10

(Source: adapted from <http://yourbusiness.azcentral.com/ethical-problems-fitness-club-25902.html>)

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**Extract B**

**More clubs, more members, more money**

Technological innovation and an enhanced consumer experience helped the UK health and fitness industry to expand between 2014–2015, according to the 2015 State of the UK Fitness Industry (SOFI) Report.

Key Performance Indicator	April 2013-March 2014	April 2014-March 2015	April 2015-March 2016**	April 2016-March 2017**
Revenues*	£4.07bn	£4.30bn	£4.70bn	£4.90bn
Health and fitness clubs (number)	5,935	6,312	6,400	6,500
Membership (number)	8.28 million	8.78 million	9.20 million	9.50 million

In the same period, the share of UK adults who were health and fitness club members, increased by 0.5%, rising to 13.7% – the highest ever level. This market trend was expected to continue.

\*Revenues include membership fees, walk-in or guest fees, personal training fees, sportswear and food and beverage sales.

\*\*Forecast

(Source: adapted from <http://www.healthclubmanagement.co.uk/detail.cfm?pagetype=detail&subject=news&codeID=316479#sthash.IBsC3oO2.dpuf>, 18 June 2015)

**Extract C**

**Gym surge**

Britons are trying to get fitter with a bigger than usual January rush this year to join gym chains, as people resolve to work off their Christmas overindulgence. The media focus on health and fitness has also helped encourage less active people to exercise more. Fitness First, a health club chain, stated that membership retention is at one of its highest levels.

5

A spokesman said: "Every day we are bombarded with messages in the media on how an hour of exercise, three times a week, can help boost overall life expectancy and wellbeing."

(Source: adapted from <http://www.express.co.uk/finance/city/633097/Gym-surge-Greggs-sales-UK-interest-rates-Arla>, 10 January 2016)



## Extract D

### Standard employee benefits for a selection of private health and fitness club chains in the UK

<b>Benefit</b>	<b>Virgin Active (96 clubs)</b>	<b>David Lloyd (85 clubs)</b>	<b>Fitness First (78 clubs)</b>	<b>Nuffield (77 clubs)</b>
Complimentary membership	Yes, plus family	Yes	Yes	Yes
Pension plan	Yes			Yes
Discounts	Yes	Yes	Yes	Yes
Job rotation	Yes			
Further training	Yes	Yes	Yes	Yes
Living wage paid	Yes	Yes		
Recognition awards	Yes	Yes	Yes	
Commission payments	Yes	Yes	Yes	
Job enlargement	Yes			
Flexible working	Yes			Yes

(Source: adapted from <http://www.fitforvirginactive.co.uk/Rewards.aspx>,  
<https://careers.davidlloyd.co.uk/working-for-us.aspx>,  
<http://www.fitnessfirsters.co.uk/working-with-us/>,  
<http://www.leisurejobs.com/minisites/nuffield-health/job/692706/lifeguard/>, 21 January 2016)

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

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

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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.

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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.

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**(Total for Question 1 = 50 marks)**

**TOTAL FOR SECTION A = 50 MARKS**



## SECTION B

Read the following extracts (E to H) before answering Question 2.

Write your answers in the spaces provided.

### Extract E

#### Pure Gym founder on why he started Pure Gym

Pure Gym, which Peter Roberts started in 2009 with four sites in the UK, now has 90 gyms from Aberdeen to Southampton.

Roberts, who trained as a chartered surveyor and then became a leisure entrepreneur investing in nightclubs and hotels, got the idea for Pure Gym after spotting the low-cost gym trend in America, Germany and Scandinavia. At the time, the UK was dominated by the relatively expensive gym chains. 5

Pure Gym opened 30 new gyms in 2014 and a further 40 the following year. It has a target of having 250 to 300 gyms in the UK by 2020. Pure Gym is now Britain's largest gym chain by membership, with 450,000 members paying between £9.99 and £25 a month. It expects to overtake Virgin Active as the operator with the largest number of sites by the end of March 2015. 10

Each site contains just a gym, with no swimming pools, saunas or racquet courts. Each Pure Gym typically employs just two staff, supported by up to 12 self-employed trainers. Members join online, paying monthly with no annual contracts and use PIN codes to access the gyms 24 hours a day. 15

Roberts wants Pure Gym to expand overseas in Italy, Spain, and emerging markets, such as those in Asia, South America and Africa.

(Source: adapted from <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11337645/Pure-Gym-founder-on-how-he-built-Britains-biggest-gym-chain.html>, 10 January 2015)



**Extract F**

**Pure Gym buys rival LA Fitness**

In 2016 Pure Gym’s newly appointed chief executive, Humphrey Cobbold, won the auction to buy LA Fitness, a business established for over 25 years. The LA Fitness sites will require a £20m refurbishment. Most of the gyms will be rebranded and require a change in working practices.

5

Pure Gym paid between £60m and £80m for LA Fitness, a mid-market operator that consists of 43 clubs. LA Fitness was put up for sale last year and, like other more upmarket chains, it has been pressured by the challenge posed by lower priced rivals.

The acquisition will require clearance from the Competition and Markets Authority (CMA), which last year foiled plans for a merger between Pure Gym and The Gym Group. Mr Cobbold said that many of the worries the CMA had were unlikely to be replicated by the LA Fitness acquisition.

10

(Source: adapted from <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/leisure/11637658/Pure-Gym-buys-rival-LA-Fitness.html>, 24 January 2016)

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**Extract G****Selected information from The Gym Group's Statement of Comprehensive Income for year ending 31 December 2015**

	<b>31 December 2015 (£'000)</b>	<b>31 December 2014 (£'000)</b>
Revenue/Turnover	61 084	45 480
Cost of sales	(1 073)	(1 040)
Gross profit	60 011	44 440
Administrative expenses	62 712	42 105
Operating profit/(loss)	(2 701)	2 335

(Source: adapted from <http://www.tggplc.com/media/66640/24869-Gym-Group-AR15.pdf>)

**Extract H****Selected information from The Gym Group's Statement of Financial Position as at 31 December 2015**

	<b>31 December 2015 (£'000)</b>	<b>31 December 2014 (£'000)</b>
Non-current assets	134 551	118 380
Current assets	8 636	9 933
Current liabilities	25 546	24 656
Non-current liabilities	9 198	72 072
Equity/Shareholder funds	108 443	31 585

(Source: adapted from <http://www.tggplc.com/media/66640/24869-Gym-Group-AR15.pdf>)



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

(8)

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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.

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

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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.

- (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.

(20)

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**(Total for Question 2 = 50 marks)**

**TOTAL FOR SECTION B = 50 MARKS**  
**TOTAL FOR PAPER = 100 MARKS**



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