



Pearson

# Mark Scheme (Results)

Summer 2017

Pearson Edexcel International GCE

In Business (9BS0)

Paper 3: Investigating business in a competitive environment

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Indicative content	Mark
1 (a)	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>● Trade-offs occur when less of one option is exchanged for more of another. Profit is total revenue minus total costs. Ethics is concerned with doing what is right for individuals and society</li> <li>● Trade-offs may tend to occur in the short run</li> <li>● If clubs insist on commitment to a year's membership (fixed contracts) this might provide guaranteed revenues over 12 months, but ethically at the expense of customer flexibility/choice</li> <li>● Profits might increase because personal trainers may sell fitness plans to members preparing to lose weight or train for a triathlon, but some members may feel coerced or end up with an unrealistic plan for them.</li> <li>● Profits might increase given the promotion of sales of products like energy bars but these bars may be high in sugar/fat and so cause some members to actually put on weight</li> <li>● Paying staff near to the minimum wage/NLW may help reduce costs to benefit profits but the staff may lack motivation and provide poor customer care</li> </ul> <p>Possible counter-balance</p> <ul style="list-style-type: none"> <li>● Trade offs may not result as much in the long term</li> <li>● Some members may welcome fixed contracts as they ensure a loyal customer/membership base which might improve the club's ethos.</li> <li>● Profits earned from sales of products may not be too significant when compared to profit from memberships</li> <li>● Staff at clubs are not always motivated by pay but by working in a social/friendly environment</li> <li>● Advice on fitness plans may enable a club's personal trainer to charge extras to give an additional income stream but the extra charges might not be welcomed by the member who could then leave the club and thus reduce revenues and in turn profits.</li> </ul> <p><b>NB Do not accept definition or application of 'opportunity cost' This is a different concept, although related.</b></p>	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–5	Accurate knowledge and understanding Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented, that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
<p><b>1 (b)</b></p>	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>● Sales forecasting is a projection of achievable sales revenue, based on historical sales data, analysis of market surveys and trends, and/or salespersons' estimates.</li> <li>● Limitations occur because of changes in consumer tastes and preferences, the entry or exit of competitors in the market (Pure Gym, Esporta), product developments (24 hour access)</li> <li>● If the past data is not available, then a forecast is made on guesswork, without a base. For example a new health club in Virgin's chain of 96 clubs will have no sales history</li> <li>● Forecasts may not be able to predict exactly the behaviour of members. For instance, news of faulty equipment or a case of food poisoning may spread among the members, so sales will be seriously affected.</li> <li>● Unanticipated economic booms or recessions will affect consumer incomes and therefore affect demand for memberships (8.28m in 2013-4 rising to 9.5m in 2016-17), as this is a luxury good/discretionary spend item</li> </ul> <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> <li>● Regular on-going market research can be used to help anticipate changes in customer tastes and preferences, such as through social media and company websites, e.g. for the members at David Lloyds 85 clubs.</li> <li>● Forecasts can be made on estimates by using other similar clubs in the chain of 96 clubs which have a similar demographic and so these could provide useful forecast data on memberships, personal training, equipment, classes, etc.</li> <li>● Trends in the business cycle are often anticipated and so can be used to inform the sales forecasts (revenues of £4.07bn in 2013-14 increased through to £4.90bn in 2016-17)</li> </ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> <li>● The health and fitness industry is dynamic and therefore requires clubs to adapt by changing facilities and classes to meet new customer preferences/social trends. To be of useful, a sales forecast needs to be very robust, based on previous sales data and up to date market research analysis</li> </ul> <p><b>NB Other examples of context accepted are 'to predict number members/memberships', 'sale of personal training programmes/clients', 'sales from cafe'.</b></p>	<p><b>(10)</b></p>

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Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
<p><b>1 (c)</b></p>	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b>  <b>Marks for application and analysis – include up to 4 marks for quantitative skills</b></p> <p>Quantitative skills assessed:</p> <p><b>QS 2:</b> Calculate, use and understand percentages and percentages changes  <b>QS 7:</b> Interpret values of price and income elasticity of demand</p> <p><b>Indicative content (quantitative skills)</b></p> <ul style="list-style-type: none"> <li>• Price elasticity of demand measures the sensitivity of changes in consumer demand to price changes and is calculated by using the formula: <p style="margin-left: 40px;"> <math display="block">\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}</math> </p> <p style="margin-left: 40px;">so a 5% increase in membership fees might reduce demand (new memberships) by 10%</p> </li> <li>• Identifies that all gym memberships with a PED of -2 are therefore price elastic and that for a specific chain (e.g. David Lloyd) the PED for membership is likely to be more price elastic given the availability of substitutes (e.g. Nuffield)</li> <li>• The use of media health campaigns is likely to reduce price elasticity as consumers might see health (keeping fit/losing weight) as more important than money, therefore whilst some may end their memberships others will be keen to retain theirs. Fitness First retentions are at its highest ever.</li> </ul> <p style="color: red;">NB If answer suggests PED of -2 is inelastic, rather than elastic, mark with caution (unlikely to score above Level 2)</p> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• PED for health clubs may be affected more by factors like seasonal trends. For example in January people are keen to exercise and lose the extra pounds in weight which may have resulted from the festive season so if membership prices increased then, demand may not fall at all.</li> <li>• If potential members incomes increase in line with membership prices then demand might not fall by a greater proportionate amount than the price increase</li> </ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> <li>• The PED for gym membership will very much depend on the economic climate and the circumstances of each individual member. Some members might in fact be health and fitness club addicts or see membership as part of their</li> </ul>	<p style="text-align: right;"><b>(12)</b></p>



	<p>lifestyle that would mean that health campaigns might have had no effect on PED.</p> <p>NB: to access levels 3 and 4, students will need to demonstrate quantitative skills to support their judgements.</p>		
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1-2	<p>Isolated elements of knowledge and understanding – recall based.</p> <p>Weak or no relevant application to business examples.</p> <p>Generic assertions may be presented.</p>	
Level 2	3-4	<p>Elements of knowledge and understanding, which is applied to the business example.</p> <p>Chains of reasoning are presented, but may be assertions or incomplete.</p> <p>A generic or superficial assessment is presented.</p>	
Level 3	5-8	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s).</p> <p>An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.</p>	
Level 4	9-12	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>A coherent and logical chain of reasoning, showing cause(s) and/or effect(s).</p> <p>Assessment is balanced, wide-ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.</p>	

Question Number	Indicative content	Mark
1 (d)	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p>Financial rewards</p> <ul style="list-style-type: none"> <li>• Financial rewards like paying at least the Living Wage will enable employees to afford a reasonable standard of living to satisfy basic needs which is likely to improve retention</li> <li>• Financial rewards are what can often distinguish one employer from another. More capable or skilled staff are therefore likely to be attracted to work for an employer who pays well which may improve job satisfaction and so reduce labour turnover</li> <li>• Personal trainers are usually paid on a commission basis, in which case remuneration is more significant; the more clients they have the more income they have. Therefore they will be more likely to leave Fitness First if commissions are relatively lower than other clubs</li> <li>• If Fitness First offer private pensions as these provide a sense of job security/are not always easily transferable.</li> <li>• Most employees in health clubs are young (students working part-time) and therefore remuneration is more important so that they have sufficient income to spend on entertainment, clothing.</li> </ul> <p>Non-financial techniques</p> <ul style="list-style-type: none"> <li>• Non-financial techniques might involve employees in delegated tasks, decision-making, further training opportunities, cross-learning, performance reviews which can support self-esteem/actualisation and so reduce LT</li> <li>• More experienced personal trainers who depend on the club for their family income may expect to be able to share in the decision making as they may seek career progression, job security and a sense of belonging</li> </ul> <p><i>Possible recommendation</i> It very much depends on what type of worker you are.</p> <ul style="list-style-type: none"> <li>• Young, less skilled, support staff such as cleaners or receptionists, may be motivated more by pay in which case remuneration is more important than empowerment. Such workers tend to be transient/temporary in any case.</li> <li>• Managers may be more concerned with non financial techniques as their performance and therefore career progression will be judged on how effective they have</li> </ul>	<b>(20)</b>

		<p>delegated tasks, entrusted and given workers confidence to perform at their best. Empowered employees become easier to manage if their own goals are shared with the health clubs goals</p> <p>Accept definition of remuneration Workers may be leaving for good reason, e.g. promotion Credit the use of theorists and their teachings where appropriate, e.g. Maslow, Taylor, Mayo, Hawthorne</p> <p>Possible recommendation depends on what type of worker you are <b>or the individuals personal circumstances or on the economic climate, e.g. effect of recession, changes in real wages</b></p>
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
Level 2	5-8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9-14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed. Quantitative or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15-20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.

Question Number	Indicative content	Mark
2 (a)	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• Roles of an entrepreneur are creating and setting up a business, running and expanding/developing a business, innovation within a business (intrapreneurship), anticipating risk and uncertainty.</li> <li>• Entrepreneurs usually have to be prepared to provide their own capital to help fund a business venture and so take calculated risks, some even sacrifice employment to do so. In which case creating and setting up a business is quite a pivotal role that involves opportunity costs. Roberts sacrificed a career</li> <li>• as a chartered surveyor, which is usually well paid.</li> <li>• In order to keep running, the entrepreneur may need to monitor the costs and sales of products and continue market research, in Roberts case the price of memberships compared to competitors or the fitness equipment of Pure Gym</li> </ul> <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> <li>• Roberts had already gained experience as a leisure entrepreneur, so taking the risk of setting up a new gym business was not such a big step</li> <li>• Intrapreneurship can be adopted by other staff in the business as it develops. Entrepreneurs have an overall vision of a business as a whole which may mean delegating to other staff. Roberts may have needed to listen to the advice of personal trainers as he expanded his clubs beyond the original four.</li> </ul> <p><b>NB: Accept 'risk taker' and 'creativity' as 'roles' since they are essentially the same as 'anticipating risk' and 'innovator' (do not accept other entrepreneurial characteristics, such as 'hard working', 'resilient', 'initiative')</b></p>	(8)

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Level 2	3–5	Accurate knowledge and understanding Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented, that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
2 (b)	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>• Limitations to Pure Gym expanding overseas/<b>offshoring</b> could include how appropriate a country is as a market, including factors such as levels of disposable income; ease of doing business; infrastructure; skills and availability of staff</li> <li>• Limitations could also centre around the potential consumer, or Pure Gym member, for example cultural differences, tastes and preferences, appropriateness of branding and promotion; ability to speak or trade in a different language – Spanish in most South American countries could be a practical or cost hurdle</li> <li>• In order to export that brand effectively, members of the UK management team may need a secondment overseas which might not be popular with staff who may need to work in countries like Nigeria where there is political and social instability</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• Since Pure Gym is a low cost operator charging up to £25 per month, it is likely that more African citizens would be able to afford membership compared to what might be charged by Virgin Active.</li> <li>• A joint venture partnership could be established initially with a company in say Peru, to help learn more and so overcome difficulties which may be caused by cultural differences, tastes and preferences, appropriateness of marketing methods and materials</li> <li>• The number of employees in the Pure Gym business is limited to two; it should therefore be less difficult to recruit staff. Furthermore, personal trainers are common across the world as the fitness industry is truly global</li> </ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> <li>• The health and fitness industry is largely similar across the world. What people expect from Pure Gym is fairly standard; 'free' weights, resistance machinery, treadmills and rowing machines. Therefore, it is likely that differences in culture, tastes and preferences, would have already been accounted for and present very little constraints</li> </ul>	<b>(10)</b>

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Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
2 (c)	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>● Corporate culture is an unwritten code of conduct within a business organisation that reflects its values and embodies the shared beliefs and assumptions that underpin the decision-making processes.</li> <li>● Corporate culture has a major impact on employee's attitudes to work and, therefore, levels of motivation, productivity and product quality (or customer service)</li> <li>● LA Fitness staff may have been used to working in larger teams and collaborated before decisions were made at a local level (task culture). Pure Gyms typically have only two staff which will mean those expectations would not be met which may reduce motivation and then cause former LAF staff to quit</li> <li>● With Pure Gym any policies or practices may have been directed and decided centrally so the corporate culture would encourage the tight control of employee behaviour that may alienate the LAF workers.</li> </ul> <p><i>Possible counter-balance:</i></p> <ul style="list-style-type: none"> <li>● For management to change the culture towards that of Pure Gym success stories or ambassadors could be used in order to instill the values or practices of the business, for example personal trainers who had an excellent reputation and large number of clients</li> <li>● Some former LAF staff may prefer to work in a pair rather than large teams and this would avoid sub-cultures developing so that Pure Gym's core values would be shared and any changes implemented more quickly</li> <li>● Pure Gym could overcome the perception that decisions have been made centrally by use of strategies such as team building activities across Pure Gyms in a particular region of the country, e.g. the northwest.</li> </ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> <li>● Corporate culture is likely to be influenced most by senior managers at Pure Gym head office and it will tend to evolve over time. Therefore attempting to change the established culture at former LAF gyms will take time and effort.</li> <li>● Management will need to convince the workforce of the need to change the culture by ensuring that they recognise the benefits to themselves as well as to the company, such as job security and better pay</li> </ul>	<b>(12)</b>



		<p>Hurdles/difficulties may include effective communication, resentment from workers because of redundancies/threat of, different ethos or protocol, leadership style.</p> <p>Solutions may include meetings, shared training sessions, openness, brand new policies/systems, democratic leadership, team circles, away days</p>	
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Level 2	3-4	<p>Elements of knowledge and understanding, which is applied to the business example.</p> <p>Chains of reasoning are presented, but may be assertions or incomplete.</p> <p>A generic or superficial assessment is presented.</p>	
Level 3	5-8	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s).</p> <p>An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.</p>	
Level 4	9-12	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>A coherent and logical chain of reasoning, showing cause(s) and/or effect(s).</p> <p>Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.</p>	

Question Number	Indicative content	Mark
2 (d)	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b>  <b>Marks for application and analysis – include up to 8 marks for quantitative skills</b></p> <p>Quantitative skills assessed:</p> <p><b>QS1:</b> calculate, use and understand ratios, averages and fractions  <b>QS2:</b> calculate, use and understand percentages and percentages changes  <b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions  <b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical forms</p> <p><b>Indicative content</b> (quantitative skills)</p> <p>Profitability:</p> <p>Expect to see two types of ratio from:</p> <ul style="list-style-type: none"> <li>• 2015 GPM = (Gross profit/sales turnover x 100) therefore (60 011/61 084 x 100) = 98.2%</li> <li>• 2014 GPM = (Gross profit/sales turnover x 100) therefore (44 440/45 480 x 100) = 97.7%</li> <li>• % change = 0.5% improvement (QS2)</li> <li>• 2015 OPM = (Operating profit/sales turnover x 100) therefore (2 701/61 084 x 100) = <b>minus</b> 4.42%</li> <li>• 2014 OPM = (Operating profit/sales turnover x 100) therefore (2 335/45 480 x 100) = 5.13%</li> <li>• 2015 ROCE = (Operating profit/Capital Employed x 100) Therefore (-2 701/117 641) x 100 = <b>minus</b> 2.3%</li> </ul> <p>(QS1)</p> <ul style="list-style-type: none"> <li>• 2014 ROCE = (2 335/103 657) x 100 = 2.25% (QS1)</li> </ul> <p>Gearing:</p> <ul style="list-style-type: none"> <li>• 2015 Gearing = (Non-current liabilities/Capital employed) x 100 therefore (9 198/117 641) x 100</li> <li>• = 7.82% (QS1)</li> <li>• 2014 Gearing = (72 072/103 657) x 100</li> <li>• = 69.5% (QS1)</li> <li>• Gearing has fallen 88% (69.5-7.82)</li> </ul> <p>Liquidity:</p> <ul style="list-style-type: none"> <li>• 2015 Current Ratio = Current assets/Current liabilities</li> </ul>	

- Therefore  $8\,636/25\,546 = 0.34:1$  (QS1)
- 2014 Current Ratio =  $9\,933/24\,656 = 0.40:1$  (QS1)
- % change = 0.06 decline (QS2)

Rate of return on capital employed (ROCE) has seen a dramatic decline (QS9)

The market size is growing due to the growth in budget, low cost gyms in the UK (QS9)

Gearing is 7.82%, which could be viewed as very low, compared to 2014 when it was very high at 69.5% - QS8)

Liquidity has worsened to 0.40:1, which is extremely low.

### **The Gym**

- This would have been a merger, not a takeover, which may have had both positive and negative repercussions
- Pure Gym has set a target to have 300 UK gyms by 2020 and this inorganic growth strategy would be more likely to match this ambition as the sites are similar and wouldn't require new builds
- Two discount operators coming together might have meant similar stock of fitness equipment and locker room supplies which would allow greater purchasing economies of scale and in turn higher profitability
- The Gym Group sites in the same area could be sold off to eliminate the direct competition and provide funds for staff training or any future redevelopment of Pure Gyms
- Revenue could be increased by increasing prices as the direct competition would no longer exist. This could be used to support further expansion in Italy, Spain, South America or Africa.
- Expansion through purchase of The Gym Group sites could lead to lower average total costs as administration and marketing costs could be integrated and shared over more sites. Administrative expenses for The Gym Group were 104.5% of the value of gross profits in 2015 (94.7% in 2014)

### **LA Fitness**

- Although LA Fitness allegedly cost between £60m and £80m, the 43 sites are likely to be premium sites as they were part of an upmarket chain. Some of these could be sold to provide revenues for more of the smaller new build Pure Gyms as part of its expansion plans across the country.
- Converting LA Fitness sites to Pure Gym sites might enable Pure Gym to appeal to different market segments by offering former LA Fitness members cheaper memberships and so increase its customer base naturally, without the need for expensive marketing campaigns

**(20)**

	<ul style="list-style-type: none"> <li>• Rebranding LA Fitness sites to Pure Gyms may enable the business to offer a premium, upmarket gym to compete directly with Virgin Active and David Lloyd to take advantage of those people on higher incomes.</li> </ul> <p><i>Possible recommendations</i></p> <ul style="list-style-type: none"> <li>• The accounting ratios for profitability and liquidity are not healthy – well below industry averages. Therefore it would not be advisable to takeover The Gym Group as this could worsen Pure Gym’s cash-flow and finance investment opportunities to risk survival in a very competitive market</li> <li>• Gearing has fallen which may be a good thing as it would suggest that expansion could cost less to finance as lenders might see the loan as less of a risk</li> <li>• The low cost gym sector may experience an increase in demand as the demand from people wanting basic facilities increases as real incomes fall. In which case by taking over LA Fitness, Pure Gym would not really tap into a lucrative market by offering alternative up market sites designed for those with high real disposable incomes</li> </ul> <p><b>NB:</b> to access levels 3 and 4, students will need to demonstrate quantitative skills to support their judgements</p>	
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.

Level 3	9-14	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed.</p> <p>Quantitative or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.</p>
Level 4	15-20	<p>Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context.</p> <p>Uses well developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed.</p> <p>Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.</p>