

Pearson Edexcel International Advanced Level

Time 2 hours

Paper
reference

WBS13/01

Business

International Advanced Level

UNIT 3: Business decisions and strategy

Source Booklet

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Sources for use with Section A

Extract A

The *Peloton* Business Model

Peloton, founded in 2012, manufactures and sells two products for customers to use at home when exercising. The first is the *Peloton* Bike, an indoor cycle with a touchscreen monitor and a starting price of \$2 245. The second is the *Peloton* Treadmill; this has a touchscreen monitor and a starting price of \$4 295.

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Peloton customers pay a monthly subscription of \$39. This gives them access to exclusive virtual sport content streamed directly to their monitors where they can compete against other subscribers. If they do not want to compete against others, they can follow a class from the *Peloton* large fitness and sport library.

The *Peloton* headquarters is in New York. It has become the largest interactive fitness business in the world and in 2019 became a public limited company. It has customers in the US, Canada, UK and Germany and has recently expanded into Australia.

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There has been a huge growth in virtual fitness classes as fewer people attend traditional gyms. This has led to an increase of 153% in *Peloton's* revenue since March 2020.

Extract B

Selected financial data for *Peloton* 2020 and 2021

	2021 (\$m)	2020 (\$m)
Revenue	3 085	1 218
Cost of sales	1 886	670
Gross profit	1 199	548
Operating expenses	1 084	718
Operating profit	115	(170)

Extract C

Peloton's mission statement

Peloton uses technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime.

Extract D

Peloton completes takeover of Precor for \$420m cash in April 2021

Precor is one of the largest global commercial fitness equipment manufacturers with a large number of sales in the US. Its fitness equipment can be found in hotels, universities and businesses in 90 countries.

With this takeover, *Peloton* expands its US manufacturing capacity and is able to increase its research and development capabilities with *Precor's* highly-skilled employees. This is expected to speed up *Peloton's* penetration of the global commercial market.

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Extract E

***Peloton* recalling all treadmills**

In May 2021, *Peloton* announced recalls of 126,000 treadmills over safety concerns. The announcement marked a major reversal of *Peloton's* initial reaction. It comes after weeks of discussions with the US Consumer Product Safety Commission (CPSC) over reports of faults with the *Peloton* Treadmill.

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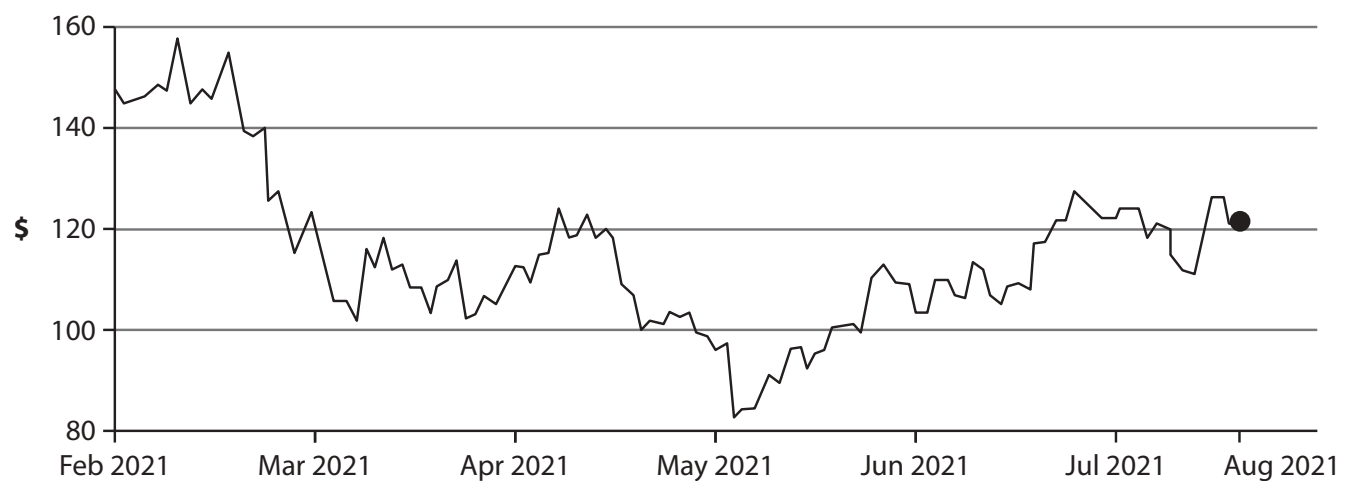
In a statement, *Peloton* apologised for not acting more quickly after reports of one death and dozens of injuries.

"I want to be clear; *Peloton* made a mistake in our initial response to the CPSC's request that we recall the *Peloton* Treadmill," CEO John Foley said. "We should have listened to them from the outset. For that, I apologise."

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Peloton shares closed nearly 15% down. This wiped \$4.1bn from *Peloton's* market value.

***Peloton* share price February–August 2021**



Sources for use with Section B

Extract F

Coca-Cola is giving one of its most popular drinks a makeover

Coca-Cola is changing the recipe for its Coca-Cola Zero Sugar in an effort to make the drink taste more like regular Coke. The Coca-Cola Zero Sugar aluminium can will also look different – all red rather than the present red and black can.

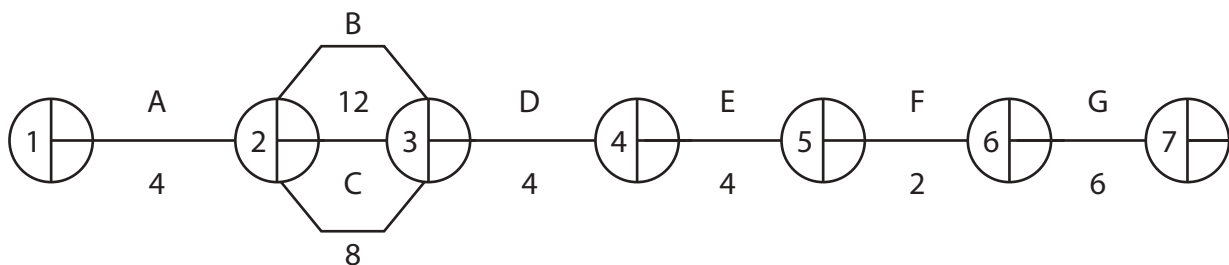
The move comes as *Coca-Cola* focuses its resources on its trademark products, including Coke, Coca-Cola Zero Sugar and Diet Coke after stopping production of some struggling brands. The company hopes the updated version of Coca-Cola Zero Sugar will attract more consumers. 5

The new version of Coca-Cola Zero Sugar is estimated to replace the current one in the US and Canada in September 2021. 10

Extract G

Proposed schedule and network for the redevelopment of Coca-Cola Zero Sugar

	Activity	Duration (weeks)	Preceding Activities
A	Conduct market research	4	-
B	Develop new recipe	12	A
C	Design new drinks can	8	A
D	Test marketing	4	B, C
E	Develop final recipe	4	D
F	Distribute final recipe	2	E
G	Promotional activity	6	F



Extract H

Amazon's \$20 an hour wages are forcing the jeans maker to rethink employee pay

Levi Strauss and Co. (*Levi's*) has been selling jeans for 168 years, but 2021 is proving particularly difficult for the business to find employees mainly due to *Amazon*.

"There's no question that recruitment and retention of labour is challenging right now," said *Levi's* Chief Executive Officer, Chip Bergh.

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Levi's is a business that many people want to work for but it is starting to face difficulties in the current US labour market when staffing its retail stores and distribution centres.

"We are considering right now what we have to do with our wage rates going forward," said Chip Bergh. "We have people that live close to *Amazon* distribution centres and *Amazon* is not afraid to pay up to \$20 an hour."

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The US minimum wage was last raised in 2009 and is still \$7.25 per hour, while *Amazon* has paid a \$15 starting wage since 2018.

A *Levi's* spokesperson said, "We offer all of our employees the opportunity to work for an iconic brand with strong values, health care and retirement benefits, a bonus programme and more. We believe this package of compensation and benefits will continue to make us an employer of choice."

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