

Section 1: Understanding business activity

Chapter 1: Business activity and economic sectors

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Factors of production are those resources needed [1] to produce goods or services [1].

b *(Up to 4 marks are available)*

Labour [1]: the skilled receptionist keeps accurate records of appointments/treatments [App].

Capital [1]: specialist hair-styling equipment is used when styling/colouring hair [App].

c *(Up to 6 marks are available)*

Secondary sector: manufacturer of products that are purchased by FS [1] such as the hair shampoos and beauty products [App] that FS depends on to provide the services to its customers [1].

Tertiary sector: banks to provide finance [1] such as loans or overdrafts used to purchase beauty equipment used in the salon [App] when Farah does not have sufficient capital herself to purchase the equipment needed in the salon [1].

d *(Up to 8 marks are available)*

Yes: creating a unique salon by redecorating it will help to give it a higher value in the minds of consumers. Most of Farah's clients might be prepared to pay higher prices as the improved image of the business makes them think they are getting a better service.

No: redecoration might not convince some consumers that the hair-cutting experience has improved. They might resist paying higher prices and go to another salon.

Overall conclusion/judgement needed: for example, the success of adding value in this way will depend on whether customers are prepared to pay higher prices for a uniquely styled salon. If the salon is in a low-income area, reducing input costs, for example, with lower-cost shampoos, might be a better way of adding value if customers do not notice the difference and the same prices can be charged.

Up to 2 marks for identification of arguments that redecoration of the salon is the best way to increase added value.

Up to 2 marks for identification of arguments that redecoration of the salon is not the best way to increase added value.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 2: Enterprise, business growth and size

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Internal growth occurs when a business expands [1] its existing operations [1].

b *(Other answers are possible; 4 marks are available)*

Hard working [1]: Farah is willing to work long hours when operating/running the salon [App].

Creative [1]: Farah has lots of ideas for expanding the services offered, such as starting to provide men's hairdressing [App].

c *(Other answers are possible; 6 marks are available)*

The business plan will help potential investors decide whether to invest [1] in FS's expansion, for example, by giving details of the cost of buying Business A, a men's hairdressing salon [App], and whether FS will require a bank loan [1].

The business plan will help Farah plan the stages she will have to follow when expanding FS [1], such as undertaking market research before buying Business B to assess the demand [1] for organic beauty products to see if buying this business will be worthwhile [App].

d *(Up to 8 marks are available)*

Internal growth: a new salon would be providing the same type of services and this is what Farah knows best. She may make better decisions about where to locate the salon and what hairdressing equipment is required for it and so on.

External growth: taking over another business is rapid growth which can be expensive and difficult to manage. Does Farah have the skills/knowledge to operate either a men's hairdressing salon or an organic cosmetics manufacturer?

Overall conclusion/justification needed: for example, taking over another business spreads risk and allows for rapid growth but it can be expensive and difficult to manage.

Up to 2 marks for identification of arguments that internal growth should be used to expand.

Up to 2 marks for identification of arguments that external growth should be used to expand.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a A business plan is a written document that describes a business [1], its objectives, its strategies, the market it is in and its financial forecasts [1].

b *(Other answers are possible; 4 marks are available)*

Number of employees [1]: comparing the number of hairdressers and beauty salon staff employed [App].

Value of capital employed [1]: for example, in terms of money invested in salon and beauty equipment [App].

c *(Other answers are possible; 6 marks are available)*

There could be a finance problem [1], especially if she pays too much to take over either Business A, the men's hairdressing salon, or Business B, the producer of organic cosmetics

[App]. If she takes out a large bank loan, Farah may struggle to repay the interest on it from the revenue earned by the larger business [1].

There could be a management problem [1], especially if Farah does not employ another manager to look after the other branch/business who is knowledgeable or experienced in this other business [1], as Farah is not a specialist in either men's hairdressing or manufacturing handmade organic products and may make bad decisions [App].

d (Up to 8 marks are available)

Business A: this would develop the business in another related area of the hairdressing market; Farah knows about hairdressing so may operate this business more efficiently; the owner wants to sell quickly so might sell at a low price, making it cheaper to take over than might otherwise be the case.

Business B: this would allow Farah to control the supply and price of major supplies for FS; she would be able to control the quality of supplies to her business; she would be able to stop selling to competing hairdressing businesses, making it more difficult for them to obtain supplies and compete with her.

Overall conclusion/justification needed: for example, Business A because Business B is involved in activities – such as harvesting – that Farah knows nothing about.

Up to 2 marks for identification of arguments that Farah should take over Business A.

Up to 2 marks for identification of arguments that Farah should take over Business B.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 3: Types of business organisations

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A franchise is a business based upon the use of the brand name, promotional logos and product ideas [1] of an existing, successful business [1].

b (Up to 4 marks are available)

Limited sources of capital/finance [1] as she only had her own savings and loans from her parents and the bank [App].

Unlimited liability [1] which means if the salon has debts, then Farah is liable to pay them/responsible for paying them [App].

c (Up to 6 marks are available)

Advantage: a partner may have more experience [1], such as her business consultant's wife who has business experience [App] and could help Farah make better business decisions [1].

Disadvantage: a partner will be able to be part of the running of the business [1] and as her business consultant's wife likes to be in control [App] it may cause problems and conflicts between the two partners when decisions are being made [1].

d (Up to 8 marks are available)

Yes: the salons operating as Spa Town franchises will allow FS to expand rapidly. As the franchisor, Spa Town could also offer management advice to Farah as she does not have

experience in some areas of running a larger business. Also, she will not have to spend time sourcing the hair and beauty products for the franchised salons as Spa Town will have suppliers ready to sell her the products; she will be operating these salons under a well-known brand name which may encourage an increase in customers.

No: Farah will lose some control over the additional salons compared to the control she has over the existing salon. She will have to use the products she is told to by the franchisor. She will have to give some of the revenue/profit to the franchisor each year and cannot keep it all herself; she will not be able to introduce other services to meet local demand if the franchisor does not approve of them.

Overall conclusion/judgement needed: for example, if Farah wants the support of a successful, well-established brand to operate these additional salons then purchasing the franchised salons could be a good decision. If she wants to retain full control of her business then this may not be a good idea. A justified decision must be made as to whether or not Farah should buy these franchised salons.

Up to 2 marks for identification of arguments for expanding by buying existing franchised businesses.

Up to 2 marks for identification of arguments against expanding by buying existing franchised businesses.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Limited liability means that the liability of shareholders in a company [1] is limited to only the amount they invested [1].

- b** *(Up to 4 marks are available)*

Loss of control when more shares are sold to the public: this dilutes the ownership/control of existing shareholders [1] and the owners of the furniture company wanted to retain complete control over their business [App].

The high cost of converting to a public limited company: for example, the advertising of an issue of shares to the public/issuing of prospectus reduces the finance available for investing [1] in other businesses for the wealthy family themselves [App].

- c** *(Up to 6 marks are available)*

Farah wants to keep the business easy to operate [1]. She does not want to have to follow the regulations that come with changing to a private limited company [1] as the business is still a small hair and beauty business [App].

Farah is an independent person [1] and the issuing of shares in her beauty business [App] to family and friends will reduce her overall control over her business [1].

- d** *(Up to 8 marks are available)*

Yes: Farah will share the profits made from the joint venture and this may increase FS's profit quite considerably; Farah will provide local knowledge which will help make the joint venture more likely to be successful; it will allow FS to earn revenue from the sale of hair products and not just hair services, so spreading risk.

No: Farah will have to share the costs of this business setting up near her and this may be considerable; Farah may have to borrow money to enter into the joint venture; she may disagree with the other business on what to do; FS and the other business are quite

different, one is a service business and the other is a manufacturer, and they may operate in very different ways, making them less likely to work successfully together.

Overall conclusion/judgement needed: for example, Farah might have to take out a large bank loan to contribute to the joint venture and as the other business is a manufacturer of hair products and quite different from FS, which is a service, then the possible advantages of sharing knowledge of the local market may not be worth the investment from Farah.

Up to 2 marks for identification of arguments for forming a joint venture.

Up to 2 marks for identification of arguments against forming a joint venture.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 4: Business objectives and stakeholder objectives

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** An external stakeholder is an individual or group that is separate from the business [1] but has a direct interest in the performance and activities of the business [1].

- b** (1 mark for each external stakeholder group to a maximum of 4 marks)

Customers, suppliers, lenders/banks, government, local community

- c** (Up to 6 marks are available)

Local community (one example of a stakeholder): will benefit from more jobs [1] as Farah plans to create ‘many new job opportunities’ in the salon [App]. These new employees will earn income which might be spent locally to benefit other local businesses [1].

Local community: might suffer noise and pollution [1] as the existing building will be demolished and a large new apartment block will be built [App]. These apartments will create extra traffic to add to local pollution [1].

- d** (Up to 8 marks are available)

Yes: shareholders will benefit from greater profit; employees will benefit from more jobs; customers will benefit from new services/products likely to be made available (other answers are possible).

No: the local community will have more traffic pollution; customers will have higher prices as the business has greater market control; the business may dominate the local market, thus offering less choice to customers.

Overall conclusion/judgement needed: for example, if Farah uses the profit from the gym to benefit the local community, for example, discounts for older local residents, then the chances of most stakeholders benefiting will be greater.

Up to 2 marks for identification of arguments that all stakeholders will benefit from business expansion.

Up to 2 marks for identification of arguments that all stakeholders will not benefit from business expansion.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a $\text{Market share (\%)} = \frac{\text{Sales revenue of business}}{\text{Total sales revenue for whole market}} [1] \times 100 [1]$

b (Up to 4 marks are available)

Survival [1]: as her hairdressing business was newly established there was a high risk of failure [App].

Profit [1]: as she clearly planned to expand the salon and finance would be needed [App].

c (Up to 6 marks are available)

Expansion [1]: Farah wants to remove an existing building and construct an apartment block in its place with a gymnasium [App], allowing the business to provide more/different services to consumers [1].

Increase market share [1]: by including a newly equipped beauty salon in the apartment building [App] this will extend the market share of FS to include other areas of Main City [1].

d (Up to 8 marks are available)

Yes: these two stakeholder groups aim for different objectives, for example, higher profits for shareholders can be gained from higher prices, which is not what the customers want as they will want to pay the lowest price for a particular standard of beauty service.

No: if the business is operated efficiently with well-motivated employees, then profits might be high without higher prices and this would satisfy customers too.

Overall conclusion/judgement needed: for example, it might depend on how Farah uses the profit earned from the new salon/gym. If some of the profit is paid in dividends and some is invested in improving gym facilities, then both groups can benefit.

Up to 2 marks for identification of arguments that the objectives of customers will always conflict with the objectives of shareholders.

Up to 2 marks for identification of arguments that the objectives of customers will not always conflict with the objectives of shareholders.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 1: End-of-section case study

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1

a (Up to 8 marks are available)

Advantages: (economies of scale) advantages of producing on a larger scale, for example, in bulk buying supplies for the beauty salons; higher profit as return to Farah and shareholders for risk taking.

Disadvantages: conflict between stakeholders as a result of growth plans might damage FS's reputation; (diseconomies of scale) disadvantages of being on a larger scale, for example, management problems from operating so many salons.

b (Up to 12 marks are available)

- i Redevelop existing salon including a new gymnasium:** brand new building/equipment; high prestige and adds to FS's reputation; possibly able to charge higher prices.
- ii Sell FS franchise to other businesses:** gains revenue from sale of franchise rights to other businesses to operate under FS name and this makes it a relatively inexpensive form of expansion for FS; brand name becomes more widely known quickly.
- iii Take over another hairdressing and beauty salon business:** quick expansion; takes over existing customers and reputation; still controlled by Farah (unlike franchised operations).

Recommendation: overall conclusion/judgement needed, including reasons for rejecting the other options.

Section 2: People in business

Chapter 5: Human resource management (HRM)

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Internal recruitment is when a vacancy is filled [1] by someone who is an existing employee of the business [1].
- b** *(Other answers are possible; 4 marks are available)*
 Salary [1]: applicants will expect to know if it offers a higher salary than their current job [App].
 Duties of the Operations Manager [1]: applicants will want to see if they are qualified/have enough experience to produce ice creams [App].
- c** *(Up to 6 marks are available)*
 Curriculum vitae (CV) [1]: by reading the CVs of applicants, Sasha will be able to see if they have any relevant experience in managing the operations department in an ice cream factory [App] and if they have qualifications in operations management [1].
 Interview [1]: by interviewing the applicants, Sasha should be able to tell whether they will fit in with the way she manages the business [1] and what their views are on the way ice cream should be produced [App].
- d** *(Up to 8 marks are available)*
 Yes: new ideas on production management; new ideas on managing/motivating ice cream production employees; no obvious internal candidates as junior managers in the factory have no experience other than at ICC.
 No: internal recruitment gives existing employees the chance of promotion; internal recruitment may motivate other production employees; no need for induction training with an internal candidate.
 Overall conclusion/judgement needed: for example, should consider both internal and external applicants and select the best one.

Up to 2 marks for identification of arguments that external recruitment is the best method to use to recruit a new Operations Manager.

Up to 2 marks for identification of arguments that external recruitment is not the best method to use to recruit a new Operations Manager.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Induction training is an introduction given to a new employee [1] explaining the business's activities, customs and procedures and introducing them to fellow employees [1].
- b** *(Other answers are possible; 4 marks are available)*
 Health and safety [1]: it is an ice cream factory with potentially dangerous equipment [App].

Provision of a written employment contract [1]: ICC must ensure that an employment contract is provided for cafe employees [App].

c (Up to 6 marks are available)

To improve the efficiency of the employees [1] who are producing ice cream in the factory [App] so that unit costs are kept down [1].

To improve customer service [1] so that employees working in the cafe [App] provide good customer service so that people return and become loyal customers of the business [1].

d (Up to 8 marks are available)

On-the-job training: gives real practical experience by watching/listening to existing employees, for example, customer service/operation of coffee machines in cafes. Less expensive for cafe owner.

Off-the-job training: gives knowledge of latest legal and industry requirements, for example, food safety and courses in food hygiene; may obtain a qualification which can aid self-esteem; can bring new information into the cafe for the benefit of existing employees.

Overall conclusion/judgement needed: for example, it might depend on how busy the existing cafes are and whether existing employees can spare the time to train new recruits.

Up to 2 marks for identification of arguments that new employees should be trained using on-the-job training.

Up to 2 marks for identification of arguments that new employees should be trained using off-the-job training.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 6: Organisation and management

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Manager A = 2 [1]

Manager B = 3 [1]

b (Up to 4 marks are available)

It would shorten lines of communication between the top and bottom of the organisation [1]. This would make communication quicker between the cafe managers and the senior managers [App].

Reducing the number of managers would force those who remain to delegate more authority to people below them [1]. This would encourage employees to show initiative and would help to avoid problems, such as those experienced when Asif was absent from the factory [App].

c (Up to 6 marks are available)

Co-ordinating [1]: she is preparing departments so that they are ready for the opening of three new cafes [App]. This means that they all need to work together to ensure they open on time [1].

Planning [1]: she will set aims or targets for the future when preparing for the expansion into another city [App]. She will communicate these to her managers who can then act with a common sense of purpose [1].

d (Up to 8 marks are available)

Yes: delegating can be motivating for other employees below the managers; may lead to better decisions being taken; can lead to more initiative with cafe employees given the chance to offer new ideas.

No: not delegating can lead to quick decisions which is important during rapid changes, for example, expanding into another city; if a business is successful without delegation – why delegate tasks to less senior employees?

Overall conclusion/judgement needed: for example, as the ICC business expands, Sasha will almost certainly not be able to perform all management roles herself – she will need to delegate some tasks and involve others for the business to run efficiently.

Up to 2 marks for identification of arguments for delegating some tasks to others lower in the hierarchy.

Up to 2 marks for identification of arguments for not delegating some tasks to others lower in the hierarchy.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Shows clear lines of authority, i.e. who to take orders from [1].

Shows clear links and relationships between different departments [1].

b (Other answers are possible; 4 marks are available)

May attract more applicants to vacant positions as they can vary the hours they work [1], making it easier to recruit people to work in the cafe [App].

May be able to serve customers with ice cream for longer hours in the day, increasing revenue [App], as the employees can work earlier or later in the day to suit them or ICC [1].

c (Up to 6 marks are available)

Their negotiating position is stronger [1] as the employer will now be discussing work conditions in the ICC factory [App] with representatives of all employees in the factory [1].

They would have legal support from the trade union [1], for example, in the case of unfair dismissal of a production employee in the factory [1] blamed for the mechanical breakdown of one of the machines [App].

d (Up to 8 marks are available)

Yes: to involve employees who have experience of production issues in the ice cream factory in important decisions, for example, the pay system, how to improve quality or machine reliability and so on; this can be motivating and may allow for job satisfaction.

No: the Operations Manager does not need to consult with production employees; too time-consuming to consult them all as decisions might have to be taken quickly; might have to pay employees for attending meetings to discuss decisions and no output of ice cream will be made during this meeting time.

Overall conclusion/judgement needed: for example, the Operations Manager should adopt a democratic leadership style as consulting with employees about the expansion into another city will motivate them and avoid them joining a trade union.

Up to 2 marks for identification of arguments for using a democratic leadership style.

Up to 2 marks for identification of arguments for not using a democratic leadership style.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 7: Methods of communication

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a *(Up to 2 marks are available)*

The receiver may not be able to answer the call so the message cannot be passed on [1].

It is more expensive to use telephones than some other methods of communication such as email [1].

No record can be kept/it is not suitable if information needs to be referred back to at a later time [1].

It is not suitable if a large number of people need to be contacted/it takes too long to call everyone [1].

b *(Up to 4 marks are available)*

Suppliers [1]: for example, milk and sugar suppliers will need messages about how much to supply ICC with and when [App].

Trade union [1]: if employees join a trade union, the Operations Manager will need to negotiate with the trade union representative for the factory employees [App].

c *(Up to 6 marks are available)*

No feedback [1]: when a customer complained about long waiting times, she was not sure whether this had been passed to senior management [App]. Feedback would allow confirmation that a message has been received and understood [1].

Lack of effective communication methods [1]: there does not appear to be a website, social media contact or email address that can be used by cafe customers to contact ICC quickly [App] and allow for rapid feedback [1].

d *(Up to 8 marks are available)*

Yes: emails/mobile phones, for example, are quick ways of sending messages; phone allows for feedback from factory employees; email is in written form; these would overcome problems with noticeboards.

No: these methods are fine for some communication, for example, asking for latest cafe sales figures from managers, but ineffective for others. For example, team briefings would allow group discussion; noticeboards can be used for permanent notices.

Overall conclusion/judgement needed: for example, no, the business needs to use a variety of communication methods depending on the purpose of the message and the need for feedback.

Up to 2 marks for identification of arguments for communicating with employees using only electronic methods.

Up to 2 marks for identification of arguments for not communicating with employees using only electronic methods.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a (Any two – 2 marks)

Cheap to produce [1].

Easily seen by people passing by [1].

Can be placed so that employees can be reminded of important safety instructions [1].

b (Up to 4 marks are available)

Advantage: information can be given out quickly/opportunity for immediate feedback [1] about the task of serving ice cream in the cafes [App].

Disadvantage: may be difficult to get all employees together [1] to have a discussion of the ice cream products to be sold that day [App].

c (Up to 6 marks are available)

Quick [1]: emails can be sent at any time during each working day [1] whereas team briefings of cafe employees might be once a week only [App].

Written evidence [1]: emails can be referred back to when an employee wants to make sure of the content of the message [1], for example, production levels of an ice cream flavour [App].

d (Up to 8 marks are available)

Yes: employees will know what form messages will be sent to them in and will look out for these, for example, they will look at the noticeboard regularly if only noticeboards in the ice cream factory are to be used. Team briefings could be used for all messages that concern each cafe.

No: manager may want to communicate with individuals, not groups; reference to examples of messages within ICC that will need different methods.

Overall conclusion/judgement required: for example, no, different messages often require different methods, for example, disciplining a cafe employee may require a written record while asking for views on future expansion decisions may be better done in a meeting.

Up to 2 marks for identification of arguments for using the same method of communication in all situations.

Up to 2 marks for identification of arguments for not using the same method of communication in all situations.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 8: Motivating employees

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Motivation is the reason why employees want to work hard [1] and work effectively for the business [1].

- b** *(Up to 4 marks are available)*

The six cafe employees will give good customer service [App] as they are keen to work effectively for ICC [1].

Cafe employees are less likely to leave ICC [App], which reduces the need to recruit new employees and keeps recruitment costs lower [1].

- c** *(Up to 6 marks are available)*

In the cafe, employees are paid an hourly wage above the minimum wage [App] and this increases with the number of years they work for ICC [1]. This rewards them for loyalty to ICC with increased pay [1].

In the factory, employees have the security of a fixed hourly wage [App] but this can be increased if production targets are met [1]. This rewards factory employees for hard work when these targets are met [1].

- d** *(Up to 8 marks are available)*

Yes: if bonuses or commission are used instead, it will motivate employees more: it will encourage employees to offer excellent service to cafe customers to increase sales of ice creams and encourage customer loyalty.

No: it would reduce the security offered by the existing financial methods and there would be uncertainty for cafe employees about whether they can earn as much per week as before. This might demotivate employees and they will then offer poor customer service to the cafe customers.

Overall conclusion/judgement needed: for example, if the cafe employees are asked for their opinions about the commission system, and if their views are taken into account, then a change in the financial methods of motivation could increase cafe sales for ICC and wages for employees.

Up to 2 marks for identification of arguments for using an hourly rate as a financial method of motivation.

Up to 2 marks for identification of arguments for using another financial method of motivation.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Job enrichment involves giving employees work tasks [1] that require more skill and responsibility [1].

- b** *(Other answers are possible; 4 marks are available)*

Earn an income [1] from producing ice cream [App].

Social contact [1] with the other employees in the factory [App].

c (Up to 6 marks are available.)

Advantage: encourages employees to achieve a high level of output [1] as they will be paid a bonus if targets are met [1] for producing a certain amount of ice cream [App].

Disadvantage: ICC loses some control over production and inventory levels/quality/output [1] as employees will always want to produce more even if demand is not high [1], especially during the winter months [App].

d (Up to 8 marks are available)

Increase wage rates: will reduce the number of production employees leaving if they are paid more; will be most effective motivation method according to Taylor; quick to put into effect.

Non-financial methods: could make manufacturing work more challenging and rewarding and will increase sense of achievement and self-esteem (Herzberg/Maslow); job rotation could be used more in cafes to make the job more interesting; may not increase costs of the manufacturer, unlike higher pay.

Overall conclusion/judgement needed: for example, final decision should be based on discussions with employees and interviews with employees who are leaving to discover their reasons for quitting ICC.

Up to 2 marks for identification of arguments for increasing wage rates for employees as a method of motivation.

Up to 2 marks for identification of arguments for using non-financial methods of motivation for employees.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 2: End-of-section case study

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1**a** (Other answers are possible; up to 8 marks are available)

Manage employees effectively to motivate them to give quicker customer service, which will encourage customer loyalty and reduce the number of complaints about waiting.

Good management of resources, for example, making sure enough supplies of coffee, tea and food are available to meet periods of high demand.

b (Up to 12 marks are available)

i Ask existing employees if they know of anyone who is suitable: cheap; informal; might just ask friends who may not be suitable as cafe employees.

ii Advertise on an online recruitment site: low-cost advertisement; may be seen on social media, particularly by people in younger age groups looking for temporary jobs; covers a very wide area – people will not travel long distances to work in a cafe.

iii Put up posters in existing ICC cafes: cheap; visible to many people – not just those in cafe but people who walk by (if posters are in the window); potential employees reading the poster can also see what the cafe is like.

Recommendation: overall conclusion/judgement needed, including reasons for rejecting the other options.

2

a *(Up to 8 marks are available)*

Financial methods of motivation: commission for cafe employees – based on additional sales; bonus payments for factory employees – if targets for high production during busy periods are met.

Non-financial methods of motivation: job enrichment – giving employees more interesting, varied and challenging work to perform, for example, responsibility for machine maintenance; working together to organise job rotation – which can be less boring and encourage discussion and social interaction as well, for example, serving in cafe and preparing food.

b *(Up to 12 marks are available)*

Full-time employees: secure job and income should motivate employees (Maslow's physiological needs); more likely to build a strong team; less likely to leave as see the job as permanent; more expensive as some employees will be underemployed at less busy times of day or days of the week.

Part-time employees: more flexible so more employees can be called in during busy periods; may be able to offer lower pay or fewer fringe benefits; more difficult to communicate with these employees as they are not at work as much; less of a sense of the employees being part of a team as not there all the time.

Recommendation: overall conclusion/judgement needed, including reasons for rejecting the other option.

Section 3: Marketing

Chapter 9: Marketing and the market

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a (Any two – 2 marks)

Identifying customer wants

Satisfying customer wants

Maintaining customer loyalty

Building customer relationships

Anticipating changes in customer needs

b (Other answers are possible; 4 marks available)

Change in consumer tastes [1]: for example, if consumers' preferences change to faster drones, TDC might have to design and produce different products [App].

Changes in technology [1]: for example, much lighter/more powerful engines that TDC will have to fit to its drones to be competitive [App].

c (Up to 6 marks are available)

Reduce prices [1]: increased competition means that consumers have more choice and rival businesses producing drones may try to undercut TDC's prices [App]. If TDC does not reduce prices, it could lose sales [1].

Spend more on developing differentiated products [1]: by developing new drone models with additional features, for example, much longer range [App], TDC might maintain its competitiveness even if it does not lower prices [1].

d (Up to 8 marks are available)

Yes: TDC is able to develop specific drones for specific market niche demand, for example, unique designs that other firms might not offer; may be able to charge higher prices and earn higher profit margins; promotion focused on relevant potential customers.

No: limited sales compared to mass market; limited opportunity to lower average costs as not able to produce on a large scale; niche demand could fall and then TDC would have fewer customers.

Overall conclusion/judgement needed: for example, if TDC is prepared to spend money on frequent market research to discover niche markets, this could be a profitable strategy.

Up to 2 marks for identification of arguments for concentrating on niche markets.

Up to 2 marks for identification of arguments for not concentrating on niche markets.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Marketing is identifying customer wants [1] and satisfying them profitably [1].

b *(Other answers are possible; 4 marks are available)*

Reduce production costs, for example, cheaper paint for drones [App], to allow for lower prices to be charged [1].

Use promotional methods [1] to encourage existing customers to return to buy another drone from TDC [App].

c *(Other answers are possible; 6 marks are available)*

Advantage: the needs of each consumer group, such as wedding photographers [App], can be more completely satisfied by products designed for them [1]. This should help build better customer relationships and maintain customer loyalty [1].

Disadvantage: the costs of developing different types of drone [App] for several different market segments are high [1]. It will probably require detailed market research which will increase costs too [1].

d *(Up to 8 marks are available)*

No: a strategy based on selling the drones that TDC chooses to develop and ignoring customer needs is unlikely to be successful; market research is needed to identify market trends and changes in consumer preferences for different styles of drone; a strategy based on customer needs is likely to be more successful.

Yes: marketing is expensive and this money could be used to invest in designing/developing new drones to appeal to customers; good quality drones will lead to 'word-of-mouth' promotion that does not cost anything.

Overall conclusion/judgement needed: for example, if market trends are changing rapidly then a strategy that ignores changing customer needs and with 'no Marketing department' is unlikely to be successful.

Up to 2 marks for identification of arguments that a marketing department is not necessary if the quality of products is good.

Up to 2 marks for identification of arguments that a marketing department is necessary even if the quality of products is good.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 10: Market research

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1**a** To find out what features of the drones consumers want [1].

To find out if consumers prefer the products of competing drone manufacturers [1].

b *(4 marks are available)*

It is not specific to the needs of the business.

It may be out of date.

It may not be detailed enough.

It is also available to competitors.

c *(Up to 6 marks are available)*

The total population that might be interested in buying a drone is so large [App] that it would be too expensive to attempt to ask this whole population, so a sample should be selected [1]. A sample of, for example, 100 people would cost much less than not using sampling [1].

A sample of a particular group of people could lead to more accurate results than just asking ‘as many people as possible’ [1]. The sample could use information about existing drone customers, for example, their age [App], and make sure that the sample is based on the appropriate age group of existing customers to give more useful and accurate research results [1].

d *(Up to 8 marks are available)*

Market research: all marketing of new products should start with market research; it helps managers take effective decisions about which drones to develop or produce; it helps to focus promotion campaigns on the main target group of consumers of drones.

New products: TDC should not spend money on market research as it is not necessary; TDC is experienced in the production of drones and should develop new models to improve on its existing models; as the existing models are successful, then new improved versions should also sell well.

Overall conclusion/judgement needed: for example, if it does not carry out market research, TDC could waste scarce resources producing the wrong drones which would not be popular with customers and have low sales, so TDC should spend money on market research to try to ensure its new models meet customer needs and hence have high sales.

Up to 2 marks for identification of arguments for spending money on market research.

Up to 2 marks for identification of arguments for spending money on new products.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** A focus group is a group of people who are representative of the target market [1], brought together to discuss opinions about products and promotions [1].

b *(Other answers are possible; 4 marks are available)*

What do you think are the most important features [1] of the drones produced by TDC [App]?

How does TDC’s advanced new drone [App] compare with the products made by the competing business [1]?

c *(Up to 6 marks are available)*

Advantage: a focus group can provide detailed information about consumers’ tastes and preferences [1], which can give TDC important information about what its customers require so it can develop new features for TDC’s different models of drone that are in demand [App] and therefore increase sales [1].

Disadvantage: the focus group could have discussions that are biased [1] if some people in the group are too argumentative or dominate the discussion [1] about features, such as the speed of the drones, leading to wrong conclusions being drawn from the research [App].

d *(Up to 8 marks are available)*

Yes: primary market research is up to date about customer tastes for drones and this is a fast-changing market; the research results are specific to the needs of TDC; directed at potential consumers for drone models.

No: secondary research could be useful too, for example, population changes; evidence from other competing companies about their styles of drone, sales levels and so on; secondary market research is cheaper than primary market research.

Overall conclusion/judgement needed: for example, primary market research is more important, even though secondary market research can help identify changes in the market/competitors' actions. Primary market research helps ensure that the features of the new drones developed by TDC will meet the changing needs of its customers.

Up to 2 marks for identification of arguments that all market research should be primary market research.

Up to 2 marks for identification of arguments that all market research should not be primary market research.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 11: The marketing mix: product

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1**a**

i Tree Skimmer: decline [1]

ii Sky Buzz: growth [1]

b *(Up to 4 marks are available)*

It can extend the life of the Tree Skimmer model [App] and this will help create revenue that could be used to invest in developing new models [1].

It might be cheaper to use extension strategies, such as a new social media campaign [1], than rushing into developing a new, more advanced drone model, which could be expensive [App].

c *(Up to 6 marks are available)*

A recognised brand image means that TDC has an 'image' of its own that makes it easy to recognise [1]. Consumers may be attracted to the TDC brand because of its reputation for exciting drone designs [App] and this helps to establish brand loyalty [1].

A recognised brand image can reduce advertising and promotion costs [1]. If the TDC brand is well known for customised and high-quality drones [App], then this will reduce the need for constant advertising to encourage consumers to buy TDC products rather than those of competitors [1].

d *(Up to 8 marks are available)*

New products: in new and technically advanced product markets, consumer tastes and preferences are changing quickly as new features are added or old products replaced; new

products are essential to maintain a good brand image and to maintain customer interest in TDC's drones.

Extend product life cycle of existing products: cheaper and quicker than developing new drone models; can help a product to achieve higher sales for a longer period – adding to the cash inflow from sales and helping to pay back the high cost of developing the drone originally.

Overall conclusion/judgement needed: for example, keep the sales of the Tree Skimmer going for as long as possible but avoid spending too much on extending its product life cycle as finance will be needed for development of new drones in the future.

Up to 2 marks for identification of arguments for developing new products.

Up to 2 marks for identification of arguments for trying to extend the product life cycle of existing products.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 12: The marketing mix: price

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** *(Only award 1 mark if final answer is not given or is incorrect)*

Cost price = \$220 + 50% of \$220 [1] = \$330 [1]

- b** *(Other answers are possible; 4 marks are available)*

There are high costs involved in developing and building drones [App] and it is important for the final price to cover these costs to avoid making a loss [1].

Lower prices should increase sales [1] and may be needed when TDC starts to sell in a new market where there are many competitors already selling drones [App].

- c** *(Up to 6 marks are available)*

Advantage: it is hoped that the business will be able to sell all the available supply of the new product at different prices [1] so that the revenue is maximised [1] from the sale of the Typhoon model [App].

Disadvantage: consumers who pay high prices for a product which is later sold at a low price may not be happy [1] and may refuse to buy drones from TDC again [App], so it may get a poor reputation if many consumers put reviews on social media [1].

- d** *(Up to 8 marks are available)*

Yes: high development and production costs need to be covered; new products can help establish a good brand image and customers may be willing to pay a high price to be the first to own the new model.

No: competition may be increasing with lower prices for competitors producing drones; some drones made by the business might be designed as low-priced models aimed at low-income consumer groups.

Overall conclusion/judgement needed: for example, the final price charged for a new TDC drone should depend on the level of competition in the niche market it is aimed at and the number of new features not available in other drones on the market.

Up to 2 marks for identification of arguments for using price skimming for all new specialised products.

Up to 2 marks for identification of arguments for not using price skimming for all new specialised products.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Cost-plus pricing is the cost of manufacturing the product [1] plus a profit mark-up [1].

b (*Up to 4 marks are available*)

Advantage: TDC could set the price lower than competitors' prices so it can enter a new market [1] which may encourage customers to buy the new drone model to see if they like it [App].

Disadvantage: the low price may make potential customers think TDC's drones are of low quality [1] and be prepared to buy a competitor's drone model instead [App].

c (*Up to 6 marks are available*)

Advantage: a profit should be made on each unit sold [1] if the costs are covered [1] for the particular model of drone being sold [App].

Disadvantage: a profit overall will only be made if enough products are actually sold [1] as the fixed costs as well as variable costs will need to be covered [1] for the development and production costs of the new model [App].

d (*Up to 8 marks are available*)

Yes: different products might be at different stages of their product life cycle and therefore need different pricing methods; there might be more competition in some markets for particular drones than others and therefore TDC may need to use competitive pricing methods.

No: it will mean more complex pricing decisions for each type of drone; consumers might wonder why some models appear to have a low price and others are high priced so perhaps TDC should use the same pricing method for all models.

Overall conclusion/judgement needed: for example, if a skimming strategy was used for all models in the TDC range, then some would have very low sales, for example, the Tree Skimmer.

Up to 2 marks for identification of arguments for using different pricing methods for different products.

Up to 2 marks for identification of arguments for using the same pricing methods for different products.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 13: The marketing mix: place

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A retailer is a business that sells products to consumers [1] in relatively small quantities [1].

- b** *(Up to 4 marks are available)*

Control over pricing [1] as a wholesaler/retailer might sell TDC drones at prices that TDC does not consider appropriate [App].

These are technical products [1] and selling directly to customers means that TDC can explain to customers what the detailed designs and methods of operation are for each product [App].

- c** *(Other answers are possible; 6 marks are available)*

Advantage: the wholesaler will buy products from TDC in large quantities [1]. The wholesaler can then divide these up into much smaller quantities (break bulk) for a large number of small retailers to buy [1]. This will increase the availability of drones to many more areas in the country [App].

Disadvantage: the customer price is often higher than the direct selling price [1] through the TDC shop or its telephone order line [App] as both the wholesaler and retailer must cover their costs and make a profit [1].

- d** *(Up to 8 marks are available)*

Yes: if retailers are specialists in selling technical products, then the features of the different models of drones can be explained and it is more likely that customers' needs will be met with the purchase of the most suitable model of drone for them. This will enhance TDC's reputation and brand loyalty.

No: retailers will expect part of the profit margin, leaving less revenue to be received by TDC for each drone sold.

Overall conclusion/judgement needed: for example, selling through specialist retailers is the best option rather than continuing to sell directly as it is harder to process large numbers of individual orders. It will be more efficient to dispatch a few large orders to specialist retailers who will then sell the individual drones to customers.

Up to 2 marks for identification of arguments for using specialist retailers to distribute products.

Up to 2 marks for identification of arguments for not using specialist retailers to distribute products.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 14: The marketing mix: promotion

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Promotion refers to the marketing activities of advertising and sales promotion [1] which aim to raise customer awareness of a product or brand, generate sales and help create brand loyalty [1].

- b** *(Other answers possible; 4 marks are available)*

To achieve 20% market share [1] for the Typhoon model [App].

To encourage 50% of customers to return [1] to buy a second drone [App].

- c** *(Other answers are possible; 6 marks are available)*

Competitions [1]: for example, buyers of the Tree Skimmer could be entered into a free competition to win the latest TDC drone model [App]. So, even though they might not be able to afford to buy the Typhoon they would have a chance of winning one [1].

Special offers [1]: as sales of the Tree Skimmer have been falling [App], a lower price may encourage more people to buy it and sales to be maintained for longer [1].

- d** *(Up to 8 marks are available)*

Yes: promotion is expensive, with 10% of total revenue being spent on it, and TDC needs resources to invest in developing new products as competitors are launching new products into the market.

No: even popular drones need some promotion to inform consumers of their features, prices and where they can be purchased.

Overall conclusion/judgement needed: for example, if TDC wants to save costs on promotion it should carefully estimate the impact of each promotion campaign, but it should not stop all promotion completely.

Up to 2 marks for identification of arguments for stopping all promotion completely.

Up to 2 marks for identification of arguments for not stopping all promotion completely.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** *(2 factors – 2 marks)*

Cost

Expected increase in revenue

Stage of the product life cycle

Nature of the product

Target market

Brand image

- b** *(Up to 4 marks are available)*

To inform customers about new TDC products [1], such as its new high-speed model [App].

To persuade customers to buy a TDC product [1] and not a competitor's drone [App].

c *(Up to 6 marks are available)*

Social media [1] as young consumers who may be interested in the newest drones launched [App] are likely to access social media on a regular basis and see the adverts [1].

Targeted emails [1] that are sent directly to previous TDC customers and so are read by the target market [1] for the newest model that can fly at very high speeds [App].

d *(Up to 8 marks are available)*

Yes: it will inform potential new customers who may not have heard about the Tree Skimmer; even if it is at the maturity stage and going into the decline stage of the product life cycle, new customers may be encouraged to purchase this drone and increase its sales again or at least prevent its sales from falling.

No: it could be a waste of money as newer models, such as the Typhoon, are now available with new features that the old ones do not have. Also, customers may already know about the older models so increased advertising may not increase interest or sales.

Overall conclusion/judgment needed: for example, as newer models are available with better features and customers may prefer newer models, the product life cycle may only be extended by sales promotions, such as discounts, rather than by increased advertising to encourage sales.

Up to 2 marks for identification of arguments for increasing advertising to extend the life cycle of a product.

Up to 2 marks for identification of arguments for not increasing advertising to extend the life cycle of a product OR up to 2 marks for identification of arguments for other way(s) of extending the life cycle of a product.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 15: Ecommerce

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Online shopping is the action or activity of buying goods and services [1] on the internet [1].

b *(Up to 4 marks are available)*

No need to travel to shops [1] so customers can buy new drone models from the convenience of their own homes [App].

Can compare prices easily [1] with different manufacturers of drones to see which is the cheapest [App].

c *(Up to 6 marks are available)*

Can cut out the retailers' profits [1], which could allow TDC to lower prices of drones [App] or make higher profits to reinvest in developing new models [1].

Can control the marketing of its products [1], such as the way the new high-speed model is promoted to consumers [App], which will help establish the advanced technological image TDC wants to create [1].

d *(Up to 8 marks are available)*

Yes: as often younger, 'tech savvy' consumers and most buyers of technologically advanced products will be technically minded and therefore may prefer to buy online; it may be a cheaper method of distribution for its products than keeping open its own shop and paying rent, which will increase its expenses.

No: as some consumers may be unwilling to risk buying such expensive items online as they may worry about fraud or fake models; the quality of the drones cannot be seen online and advice cannot be given as to which model of drone would suit professionals or children – depending on the customer who is buying.

Overall conclusion/judgement needed: for example, ecommerce is not the best method to sell all drone models as customers may want technical advice or to see the drone fly to be sure of its quality before making the purchase.

Up to 2 marks for identification of arguments for only selling using ecommerce.

Up to 2 marks for identification of arguments for not only selling using ecommerce.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 16: Marketing strategy, entering new markets in other countries and legal controls

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A marketing strategy is a plan with a marketing objective [1] and details of the marketing mix that aims to achieve it [1].

b *(Up to 4 marks are available)*

How much finance is available [1] to advertise TDC's technical products in Country Y [App].

How much competition there is in Country Y [1] from manufacturers of low-priced drones [App].

c *(Up to 6 marks are available)*

Increase sales of its existing products [1] in the new market in Country Y to increase TDC's revenue [1] from selling its drones [App].

To enter a new market in another country [1] by selling a new, more technically advanced model [App]; to introduce its products to more customers and move them away from competitors in this market [1].

d *(Up to 8 marks are available)*

Yes: the marketing strategy should be different as consumers in other countries may have very different purposes for buying the drones, such as professional photographers taking photos to help hotels advertise facilities or assist businesses in making location decisions between different sites. Therefore, the product and promotion elements of the marketing strategy may need to be changed to appeal to the local requirements in the other country.

No: drones are the same basic product and some may be faster or cheaper but it does not matter that they are being sold to different countries, they are still in demand for what a drone can do.

Overall conclusion/judgement needed: for example, TDC does not need to change the product part of its marketing strategy as the basic model of a drone is in demand everywhere for what a drone can do and it cannot easily be adapted to do something else. However, it may need to change the pricing method it uses as average incomes are lower in Country Y and if a drone is priced too high it will not successfully enter the market, so the pricing will need to be different.

Up to 2 marks for identification of arguments for using different marketing strategies in different countries.

Up to 2 marks for identification of arguments for not using different marketing strategies in different countries.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a (2 elements – 2 marks)

Product

Price

Place

Promotion

b (Up to 4 marks are available)

Health and safety product controls [1]: drones are potentially dangerous and they will have to meet legal controls about how high they can fly, their maximum speed and so on, to protect consumers/users [App].

Price reduction controls [1]: claims of price reductions of drone products such as the Tree Skimmer must be genuine reductions to avoid misleading consumers about the original price [App].

c (Up to 6 marks are available)

Increases potential sales [1] of products such as the Tree Skimmer that have reached the decline stage in the home market [App]. Consumers in drone markets in other countries might think that this is an up-to-date product [1].

The Typhoon is a high-cost product to make [App] so increasing sales in markets in other countries could result in advantages from producing on a larger scale [1] that will reduce the average cost of making each Typhoon [1].

d (Up to 8 marks are available)

Lack of knowledge could be overcome by forming a joint venture with a business in Country Y. For example, a retailer of similar products will have knowledge of the local market conditions and consumer preferences, but the other business will expect a share of the profits.

Cultural differences will need to be recognised and can be overcome by carrying out primary market research. This will help to ensure the drones produced are suitable for the

local market. However, this can be expensive and needs to be carried out by people who are familiar with the local market or the research may not give accurate results.

Overall conclusion/judgement needed: for example, TDC needs to recognise that incomes are lower on average and a lack of knowledge could mean that the wrong products are marketed and will be unsuccessful if only higher-priced drones are sold. This is most important as cultural differences may not affect whether customers want to buy drones as they are a product purchased by many groups of people no matter where they come from.

Up to 4 marks for identification of two ways of overcoming the disadvantages of entering a new market in a different country.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 3: End-of-section case study

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a *(Up to 8 marks are available)*

Advantage: two-way discussion of answers can result in useful qualitative data, for example, the features looked for when buying a drone for the first time for your child.

Disadvantage: interviews are time consuming and expensive and the market for this type of model has changed rapidly to professional buyers who want the newest features, so a very quick response to market research would be better.

b *(Up to 12 marks are available)*

Mass market: using TDC's good reputation and brand image could lead to very high sales to parents in the mass market; rapid growth of the business; opportunities for reducing average costs from manufacturing on a larger scale, for example, receiving a discount for buying component parts in bulk.

Niche market: TDC's reputation and brand image have been built up using this strategy; mass marketing could 'cheapen' the image of TDC, making the models seem less advanced and less technical; sales of high price/high profit margin niche products could fall.

Recommendation: overall conclusion/judgement needed, including reasons for rejecting the other option.

2

a *(Two of the following three factors. Up to 8 marks are available – 4 for each factor explained in context)*

Product promotion: the colours and graphics used on the box could help to support the promotional image of the drones for children.

Product protection: strong boxes will be needed to protect the technical product during transportation from TDC to the customer, especially if TDC sells online.

Product information: instructions about using the drone will be needed so professional users and other users do not use it in an unsuitable manner.

b *(Up to 12 marks are available)*

Pricing method is competitive: children might have limited spending power so a competitive price similar to other manufacturers of low-cost drones increases the chances that many of them will buy this new model. However, it is more likely that parents will pay for the drone so competitive pricing may be less important, especially if the parents think the TDC drone has features that are more suitable for their children.

Promotion is using competitions and billboards: competitions may attract parents to buy this new model for their children as it may enable them to gain a higher-quality drone free of charge; billboards are more likely to be seen by motorists driving by the billboard and may increase awareness of the new drone; children may be less likely to see the advert on the billboard and unless the prize of the competition attracts children then it may not be effective.

Place – the model is only to be sold through large toy shops: many children will not have easy access to large toy shops so may not see the TDC drone and may not ask their parents to buy it for them. However, they are likely to have a mobile phone and go on social media, so ecommerce may be more likely to be effective.

Recommendation: could be any one of the three elements of the marketing mix for the new drone but reasons should also be given for not changing the other two elements.

Section 4: Operations management

Chapter 17: Production of goods and services

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a (2 marks are available)

$$\text{Labour productivity} = \frac{\text{Output per period (units)} [1]}{\text{Number of employees} [1]}$$

b (4 marks are available)

The average costs are lower [1], meaning BCC can charge lower prices for its clothes [App].

Higher productivity means employees can have higher wages without increasing average costs [1], meaning higher motivation for skilled employees [App].

c (6 marks are available)

A variety of different products is demanded [1] and there are several different styles of clothing produced for men, women and children to meet this demand [App]. Sales and revenue are likely to be higher from BCC being able to supply the different products demanded by customers in the smaller quantities produced by batch production [1].

If a large quantity of one product is not demanded, then it is not produced in a large quantity [1] as customers will require a certain size of children's clothing and a different size as they grow up [App], leading to smaller quantities of different sizes being produced by batch production and a large quantity of a certain size not left unsold [1].

d (8 marks are available)

Yes: JIT will reduce the costs of holding inventory; it improves cash flow as less cash is tied up in holding inventory; less warehouse space is required to hold inventory, further reducing costs; if costs are lower, then BCC's clothes may be more competitively priced or profit increased.

No: JIT is risky and relies on suppliers being able to deliver cloth inventory at short notice or there could be problems in meeting demand from retailers/customers. Sudden increases in demand for clothing may not be met, potentially losing sales.

Overall conclusion/judgement needed: for example, yes, as this will reduce inventory costs but only if BCC has reliable suppliers.

Up to 2 marks for identification of arguments for introducing just-in-time (JIT) inventory control.

Up to 2 marks for identification of arguments against introducing just-in-time (JIT) inventory control.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 18: Technology and production of goods and services

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a Computer-aided manufacturing (CAM) is the use of software and computer-controlled machinery [1] to automate a manufacturing process [1].

- b (4 marks are available)

Introduced contactless payments [1] so that payments in shops when buying clothes will be carried out quickly and automatically and the money will appear in BCC's bank account straight away [App].

Introduced artificial intelligence (AI) into the bank's Customer Service department [1] as chatbots can answer customer queries about their bank accounts or taking out a loan and no employees are needed unless the query is more complicated [App].

- c (6 marks are available)

Increases productivity [1] as more clothing of each size can be made per hour [App]. This increases output and, if these products are sold, then revenue will also increase [1].

Better quality products are produced [1] as new technology will produce standardised clothing with fewer mistakes [App] so less faulty goods are returned, reducing costs [1].

- d (Up to 8 marks are available)

Yes: new technology increases output and efficiency, which makes the clothing business more competitive, so jobs are more secure and there may be a potential for a pay increase.

No: the nature of their jobs may change if new technology is introduced and also some machinists may be made redundant.

Overall conclusion/judgement needed: for example, yes, as long as their pay increases and there are not any redundancies in the clothing factory.

Up to 2 marks for identification of arguments for investing in new production technology.

Up to 2 marks for identification of arguments against investing in new production technology.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 19: Sustainable production of goods and services

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a Renewable energy is power obtained from sources that are not used up in energy production [1], such as solar and wind power [1].

b (4 marks are available)

Recycling resources [1] is one way of increasing sustainability. Water used during the production process for clothing could be cleaned, filtered and recycled [App].

Using environmental packaging [1] is another form of sustainability. The boxes and other packaging BCC uses to send clothes to retailers could be made from materials that do not damage the environment [App].

c (6 marks are available)

Advantage: increases the reputation of BCC [1] as its clothing is now made using more sustainable cloth [App] so this will attract environmentally concerned customers and so sales may increase [1].

Disadvantage: it is likely to increase costs [1] as cloth will have to be sourced from suppliers that produce it and do not harm the environment in the process [App]. This will take time and the suppliers may need to be regularly checked to ensure that the claims they make are always true [1].

d (Up to 8 marks are available)

Yes: as clothing manufacturing is a very competitive market and if BCC changes its designs, cloth and fabric to become more sustainable, then costs, and eventually prices, may increase, possibly leading to lower sales if competitors do not do the same.

No: many consumers are becoming much more aware of the impact businesses have on the environment and prefer to buy clothing from manufacturers that produce their clothes in a more sustainable way. Therefore, BCC's sales may fall in the future if it does not become more sustainable.

Overall conclusion/judgement needed: for example, yes, as long as customers are more concerned with the price of clothes rather than how they are made and which materials are used in their manufacture.

Up to 2 marks for identification of arguments that a clothing manufacturer should try to become more sustainable.

Up to 2 marks for identification of arguments that a clothing manufacturer should not try to become more sustainable.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 20: Costs, scale of production and break-even analysis

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a $((\$1 \times 4000) + \$4000) / 4000 = [1]$

Average cost = \$2 each [1]

b (Any two – 4 marks are available)

Poor communication [1]: there will be more managers and production workers in the clothing factory, which may mean that workers do not always receive all relevant information, thus reducing efficiency and raising cost per unit [App].

Low morale [1]: with more workers in the factory using batch production, they may feel that they are not important and feel ignored by management, thus reducing efficiency and raising cost per unit [App].

Lack of control of the employees [1]: there will be many more employees in the new, larger factory to produce the 4000 units at maximum output and they may not work efficiently if not closely supervised, leading to higher unit costs [App].

c *(Any two – 6 marks are available)*

Purchasing economies/bulk buying [1]: cloth can be purchased at a cheaper cost [App] as the supplier will give a discount for large volumes purchased [1].

Marketing economies [1]: the costs of advertising the clothing will be spread over a larger output of garments [App], resulting in a smaller cost per item [1].

Financial economies [1]: as BCC has expanded there will be less risk of it going bankrupt as it will be selling a larger volume of clothes [App] and so banks will lend to it at lower interest rates, thus lowering borrowing costs [1].

Managerial economies [1]: expert managers can be employed at the new, larger factory [App] and they will be able to reduce costs due to better organisation in the factory [1].

Technical economies [1]: more automated sewing machines can be purchased that produce more items per hour [App], which will increase efficiency and reduce the cost per item of clothing [1].

d *(Up to 8 marks are available)*

Yes: BCC should reduce the price of its women's clothing as demand will increase if it does this. Revenue will also increase if sales of clothing increase by a larger percentage than the percentage reduction in price and, if costs remain the same, then profit should increase.

No: demand may not increase in the same proportion as the reduction in price if there are a lot of competitors selling similar styles of women's clothing. Therefore, revenue will fall as many customers may keep buying from competitors and not change to BCC, so the increase in BCC's demand may be small.

Overall conclusion/judgement needed: for example, yes, the price should be reduced as long as there are many customers who are willing to start buying from BCC and reduce their demand for competitors' clothing as this will mean BCC's revenue will increase.

Up to 2 marks for identification of arguments for reducing the price of products when production increases.

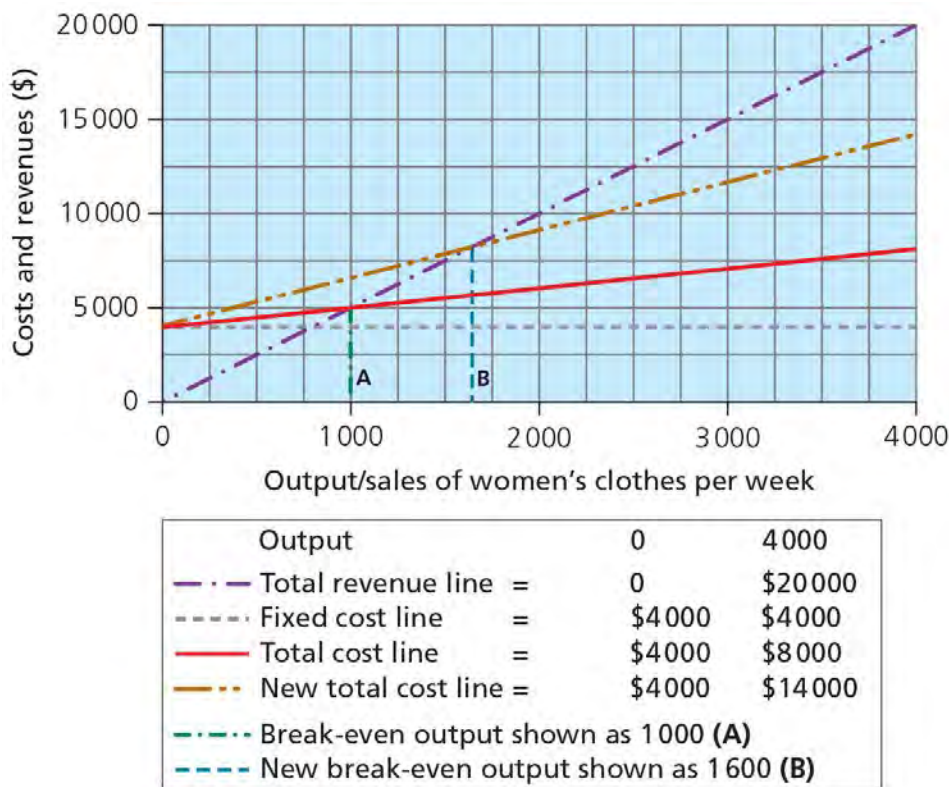
Up to 2 marks for identification of arguments for not reducing the price of products when production increases.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a (4 marks are available)



Break-even output marked on the graph at 1000 units of output (A).

b (2 marks are available)

New total cost line shown – starting at \$4000 and ending at \$14 000 at an output of 4000 [1].

New break-even level of output marked on the graph at 1600 units of output (B) [1].

c (2 marks are available; award 1 mark for correct method but incorrect answer)

Maximum output 4000 – (break-even output) 1600 = 2400 items as the margin of safety [2].

d (Up to 8 marks are available)

Yes: can easily see amount of output of women's clothes needed to cover all costs, therefore identifies target output when profits will be made; also shows margin of safety where sales could fall but costs will still be covered.

No: assumes no inventories of the products are held; the cost of cloth may not stay the same at varying amounts purchased; assumes all women's clothing is sold at a fixed price, which might not be the case.

Overall conclusion/judgement needed: for example, break-even analysis is useful in decision making as long as BCC can sell all output of women's clothing at a constant price of \$5 and demand does not change.

Up to 2 marks for identification of arguments for using break-even analysis to help make decisions.
Up to 2 marks for identification of arguments for not using break-even analysis to help make decisions.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 21: Quality of goods and services

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a (Any 2 – 1 mark for each reason)

- Establishes a brand image
- Builds brand loyalty
- Will maintain a good reputation
- Will help to increase sales
- Attracts new customers

b (Other answers are possible; 4 marks are available)

Employees can focus on producing the output [1] knowing that someone else will check for faults in the clothing [App].

Lower costs as production employees do not have to be trained [1] to know how to check for faults when producing clothing using batch production [App].

c (Other answers are possible; 6 marks are available)

Gives the product a bad brand image [1] so customers will not be willing to buy the clothing items again [App]. They might tell their friends and so sales revenue will fall [1].

There will be increased costs to repair or replace the faulty item [1] as the clothing will be returned to the retailer or wholesaler and then sent back to the BCC factory for repair or replacement [App], therefore reducing profit [1].

d (Up to 8 marks are available)

Yes: quality assurance tries to find the fault and eliminate it before it reaches the end of the production line which would mean lower repair costs; all employees are responsible for maintaining quality so may be more motivating.

No: it is expensive to train all production employees for quality assurance – it relies on all employees following instructions of standards set and understanding the importance each employee plays in maintaining quality.

Overall conclusion/judgement needed: for example, yes, as this should result in fewer faults in the clothing products and lower costs as long as the training costs are not too high.

Up to 2 marks for identification of arguments for changing from using quality control to quality assurance.

Up to 2 marks for identification of arguments for not changing from using quality control to quality assurance.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 22: Location decisions

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a When starting a new business [1] or relocating an existing business [1].

b *(Other answers possible; 4 marks are available)*

A clothing retailer will want to be in an area where there are many people shopping [1] to have a better chance of attracting customers to buy their products manufactured by skilled employees [App].

Good security of the area [1] will be important so that the retailers are less likely to have their inventories of clothing products stolen [App].

c *(Any two – 6 marks are available)*

Location of the market [1]: if the market is a long way away then transport costs will increase [1]. This may increase the cost of transporting the items to retailers and wholesalers [App].

Location of raw materials/component suppliers [1]: if they are a long way away then transport costs will increase [1], which may increase the price of the children's clothing items to retailers [App].

Availability of labour [1]: skilled machinists may be required for the factory [App], leading to lower costs than if there is a shortage of skilled employees in the area, which might lead to higher wages or training costs [1].

Government influence/grants/planning permission [1]: these will reduce the costs of opening the new, larger factory [App] as grants do not have to be paid back [1].

Transport and communications [1]: poor links will increase the time and costs [1] of transporting cloth to the factory or finished items of clothing to retailers [App].

d *(Up to 8 marks are available)*

Site A: nearby to existing factory so may not lose existing employees; higher cost than the other site; a long way to the port, which will increase transport costs for 75% of the clothes produced that are exported to Country Z.

Site B: cheaper cost than other site and near to the port – this will reduce time and transport costs of clothing being exported; high cost of transporting output to the main city as it is far away.

Overall conclusion/judgement needed: for example, Site B should be chosen as it is the cheapest site, reducing the need to borrow money, and it is near to the port, making it easier for the clothes to be exported.

Up to 2 marks for identification of arguments for buying Site A.

Up to 2 marks for identification of arguments for buying Site B.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2**a** Planning regulations make it more difficult/easier to locate in particular places [1].

Grants and subsidies that are available reduce costs [1].

b *(Any two – 4 marks are available)*

Advantage: clothes shops being located near to each other [App] will attract many customers to the area and make it more likely for the retailer to benefit from increased sales [1].

Disadvantage: having many similar shops nearby may lead to reduced sales [1] as potential customers may be attracted to lower prices for better quality clothing items from other shops [App].

c (Any two – up to 6 marks are available)

Size of the new market in the other county [1]: if there is a large market for BCC's clothes [App] then transport costs will be lower/easy access to retailers or customers [1].

Difficulties in recruiting labour [1]: if skilled labour is not readily available [1] then costs of training sewing machinists will be higher [App].

Trade and tariff barriers [1]: if these barriers are high then this will increase the price of imported products by BCC [1] but if the clothes are produced in Country Z then tariffs will not be paid and this will make them more competitive [App].

Cheaper/new sources of raw materials/components [1]: if these are available then costs will be lower and may lead to higher profit or lower prices of clothing [App], which will make BCC more competitive [1].

d (Up to 8 marks are available)

Yes: there would be cost savings if all production is in one place as BCC would benefit from economies of scale. The majority of the clothes produced are sold in Country Z, leading to savings on transport costs to the market – possibly allowing prices to be reduced/become more competitive.

No: as experienced skilled employees will be lost; some of the output (25%) is sold in Country X and BCC will still have transport costs back to Country X, reducing the savings in transport costs to the market.

Overall conclusion/judgement needed: for example, no, as it could lose very experienced, skilled employees and it may not be able to recruit such experienced employees in Country Z, leading to lower efficiency or increased training costs.

Up to 2 marks for identification of arguments for relocating all production to Country Z and stopping production in Country X.

Up to 2 marks for identification of arguments against relocating all production to Country Z and stopping production in Country X.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 4: End-of-section case study

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a (Up to 8 marks are available)

Advantage: the dress will meet the exact requirements of the customer – this increases customer satisfaction as the dress will fit perfectly so the customer will be willing to pay a higher price.

Disadvantage: the costs of making the dress will be higher – job production is labour-intensive production so it may take longer to produce the product; the cloth may have to be specially purchased for this individual dress and this may increase costs further.

b (Up to 12 marks are available)

Introduce automation and technology: for example, new sewing machines to sew the cloth together faster means more clothes per worker can be produced which increases labour productivity but the cost of new machinery is high and a source of finance, such as a bank loan, will need to be found.

Improve labour skills by training employees: production employees become more efficient and increase the number of clothing items they can produce each hour, but costs will increase for training the employees; once employees are better skilled, it may be easier for them to find a higher paid job with another employer, increasing labour turnover and wasting the training costs.

Recommendation: justification could be for any of the two ways, but reasons should also be given for why the other way is less effective at improving productivity.

2**a** (Up to 8 marks are available)

Break-even level of output might rise due to lower prices: if the price of clothing is lowered then the number of items of clothing that needs to be sold to cover all the costs will increase. This lowers gross profit and reduces profit for the company and reduces the margin of safety.

Break-even level of output might rise due to increased cost of cloth: increased variable cost reduces the contribution from each item of clothing. This lowers profit and may lead to lower dividends.

b (Up to 12 marks are available)

Create less waste: this reduces costs of making each item of clothing – by redesigning the style of clothing that uses less cloth; costs are saved as less cloth is purchased to manufacture clothing items; there is also less cost disposing of waste. However, this could lower quality of clothing; poor designs might not be liked by previous customers, leading to a poor reputation and lower sales and revenue.

Use renewable energy: this improves the reputation of the clothing company and may increase sales from environmentally aware consumers, increasing sales and revenue; possibly lower energy costs in the long term as the cost of fossil fuels is expected to continue to increase in the future. However, there is a very high installation cost to put in wind turbines – BCC would need to use finance for the investment which may increase costs if a bank loan is taken out or affect control of the company if more shares are issued to finance it.

Recommendation: justification could be for either of the two ways, but reasons should also be given for why the other way was not chosen for BCC to become more sustainable.

Section 5: Financial information and decisions

Chapter 23: Business finance

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Retained profit is the profit reinvested back into a business [1] after deducting tax and payments to owners, such as dividends [1].

- b** *(Up to 4 marks are available)*

Advantage: does not give up equity/ownership of his taxi business [App], which means Ted can keep control [1].

Disadvantage: fees paid to the online crowdfunding platform [1], which means Ted will need to raise finance to pay for these as well as paying for the vehicles [App].

- c** *(Up to 6 marks are available)*

How much capital Ted is putting into his sole trader business relative to the bank loan he is asking for [App]. If he is willing to risk a lot of his own money [1] then the bank may be more willing to lend to Ted [1].

Whether the cash flow forecast suggests that TT will earn enough revenue from taxi services [App] to repay the loan with interest [1] and therefore there will be a low risk of the loan not being repaid [1].

- d** *(Up to 8 marks are available)*

Yes: a bank overdraft will allow Ted more working capital for the business as it may be short of working capital at certain times of the year if, for example, fewer taxi services are demanded.

No: as interest will be charged on a daily rate on a bank overdraft and this is more expensive and is often at a higher interest rate than the interest rate charged on a bank loan – Ted might be better to use alternative sources of finance, such as loans from family and friends to provide additional working capital for the business.

Overall conclusion/judgement needed: for example, it depends on whether Ted thinks the business will run short of working capital as to whether an overdraft will be needed.

Up to 2 marks for identification of arguments for arranging a bank overdraft for a business.

Up to 2 marks for identification of arguments against arranging a bank overdraft for a business.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Leasing allows a business to pay a regular leasing charge [1] to use an asset without buying it [1].

b *(Up to 4 marks are available)*

One advantage is the trade credit improves TT's short-term cash flow [1]. By delaying payment for fuel for trucks, the short-term cash position of the business is improved [App].

One disadvantage is that trade credit can only be used as a short-term source of finance, for example, for TT to obtain fuel but delay paying for it [App]. TT's expansion plans will need longer-term finance such as long-term loans [1].

c *(Up to 6 marks are available)*

To buy additional trucks [App] as these are needed to expand and offer additional services [1]. These cost a lot of money to buy and TT will need additional finance to purchase them [1].

Expansion will require more working capital [1] to pay for day-to-day expenses such as wages and other expenses [1] due to having an increased number of drivers and vehicles [App].

d *(Up to 8 marks are available)*

Bank loan: a large amount of money would be available as TT is quite a large business – Ted keeps majority ownership and therefore control of the taxi and transport business.

Issue more shares: there would be no interest to be paid but this brings in more shareholders and they might want the transport company managed in a different way with the existing shareholders losing some control.

Overall conclusion/judgement needed: for example, Ted should only issue more shares if the directors know people they can trust to become shareholders of the transport business.

Up to 2 marks for identification of arguments for taking out a bank loan to finance expansion.

Up to 2 marks for identification of arguments for issuing more shares to finance expansion.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 24: Cash flow forecast

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A cash flow forecast is an estimate of future cash inflows and outflows of a business [1], usually on a month-by-month basis, showing the expected cash balance at the end of each month [1].

b *(Up to 4 marks are available)*

Advantage: it tells Ted how much cash is available [1] for paying bills, repaying loans or for buying more taxis/trucks [App].

Disadvantage: it will take time to draw up [1] and Ted could be doing other things in the business such as going out to find new customers for the trucks [App].

- c (Up to 6 marks are available; award 6 marks if all figures are correct; deduct 1 mark for each incorrect answer)

\$000	July	August	September	October	November	December
Cash inflow						
Cash from taxis	50	50	40	40	10	10
Payments received from transport customers	10	10	10	10	10	10
Capital and loans	—	—	200	—	—	—
Total cash inflows	A = 60	60	250	50	20	20
Cash outflow						
Purchase of vehicles	—	—	—	D = 250	—	—
Wages	20	20	20	20	10	10
Fuel	5	B = 5	4	4	1	1
Other expenses	20	20	20	20	20	20
Total cash outflows	45	45	44	294	31	31
Net cash flow	15	15	206	(244)	E = (11)	(11)
Opening balance	10	25	C = 40	246	2	(9)
Closing balance	25	40	246	2	(9)	F = (20)

- d (Up to 8 marks are available)

Yes: a large amount of cash in the closing balance ensures sufficient liquidity to pay all bills, such as fuel for the taxis, meaning there will be no problem obtaining supplies.

No: a large amount of cash in the closing balance could be earning a return if put into an account that pays interest rather than leaving it in a current account. No interest is paid on cash if it is just left in the bank in a current/business account.

Overall conclusion/judgement needed: for example, Ted should ensure there is sufficient liquidity in the taxi business to not run the risk of not being able to pay its short-term debts, but not too much, as this gains no interest.

Up to 2 marks for identification of arguments that a business needs a large closing balance each month.

Up to 2 marks for identification of arguments that a business does not need a large closing balance each month.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Closing balance is the cash held by a business [1] at the end of each period of time [1].

b (Any two of the following; other answers are possible; 4 marks are available)

Bank Manager [1] to see if a bank loan should be given to purchase more vehicles [App].

Owner/Ted [1] to support his application for a bank loan to expand the business [App].

Manager [1] to see if there is sufficient cash to pay for fuel each week [App].

c (Other answers are possible; 6 marks are available)

It is a forecast and may be wrong [1], for example, poor budget control for fuel used for taxi journeys [App] may lead to costs being higher than forecast [1].

Something might happen between the forecast and the actual cash flow [1] as unexpected things, such as an increase in the minimum wage which is paid to drivers [App], may cause the actual figures to be different [1].

d (Up to 8 marks are available)

Delay payments to fuel suppliers: this increases the cash available in the taxi business for a short time, but the payments will still need to be paid at some point. Ted may have a worse relationship with the supplier and the supplier may not be willing to extend trade credit for fuel for more than one month.

Reduce the number of trucks leased by TT: this reduces the outflows for lease payments each month but without the trucks TT will find it difficult to expand and offer more services to business customers so cash inflows from transport services to other businesses may reduce, making the cash flow problem worse.

Overall conclusion/judgement needed: for example, delay payments to fuel suppliers by more than one month as this will improve the cash flow problem in the short term. It will allow TT to expand, which would be more difficult if it reduced the number of trucks it leased and therefore decreased the cash inflow from transport services to other businesses.

Up to 4 marks for identification of two ways a short-term cash flow problem could be overcome.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 25: Profit and loss

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a A statement of profit or loss is a financial account that records the income of a business and all costs [1] incurred to earn that income over a period of time, for example, one year [1].

b (Up to 4 marks are available)

A = \$360 000 [1] (\$400 000 – \$40 000)

B = \$450 000 [1] (\$500 000 – \$50 000)

C = \$40 000 [1] (\$360 000 – \$320 000)

D = \$50 000 [1] (\$450 000 – \$50 000)

c *(Up to 6 marks are available)*

To allow dividends to be paid to shareholders [1] as this is the reward for them investing in this transport business [App] and without this, new shareholders would not invest in TT [1].

It is a source of finance [1] for Ted to purchase new taxis or trucks instead of borrowing the money [App] and having to pay interest on the loans [1].

d *(Up to 8 marks are available)*

Increasing profit: to provide more finance for expansion of the transport business without the cost of interest payments and to pay higher dividends to the shareholders to keep them happy with the business.

Increasing revenue: trying to increase revenue from taxi services will focus the business on gaining more customers and, if successful, will help to increase profit at a later date.

Overall conclusion/judgement needed: for example, without increased revenue it is unlikely profit will be increased, but if the focus is on revenue, then costs must rise less than the rise in revenue or profit will fall.

Up to 2 marks for identification of arguments that a business should focus on increasing profit.

Up to 2 marks for identification of arguments that a business should focus on increasing revenue.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2**a** Revenue = selling price per unit [1] × number of units sold [1]**b** *(Other answers possible; 4 marks are available)*

Revenue might have increased because of higher prices [1]. If most customers were still prepared to pay the higher prices this would lead to only a small reduction in sales of drones and therefore higher profit if revenue increased and costs remained the same [App].

Sales increased by more than the increase in cost of sales or expenses [1], leading to higher profit for the transport business [App].

c *(Up to 6 marks are available)*

The bank will want to see if TT can repay a bank loan it has taken out [1] to expand the transport company [App] by making a profit each year and make sure TT is not likely to go bankrupt. [1]

Employees will want to see if there is enough profit to make them feel secure in their jobs [1] and for these taxi drivers to possibly argue for an increase in their wages [App] as they have helped increase the profit of TT [1].

d *(Up to 8 marks are available)*

Reduce dividends: in a private limited company, for example, the shareholders are family and friends and will not be able to sell their shares without the approval of the other shareholders. This will mean there is no chance of a takeover of the business if the shareholders are unhappy and the costs of sources of finance will be lower as no interest will need to be paid.

Raise prices: this will increase revenue as long as the demand for taxi services does not fall by a greater percentage than the price increase.

Overall conclusion/judgement needed: for example, Ted should only reduce dividends if he is sure his shareholders are happy with this, understanding that the retained profit may be used to expand the business and may lead to increased dividends in the future.

Up to 2 marks for identification of arguments that dividends should be reduced to increase profit.

Up to 2 marks for identification of arguments that prices should be raised to increase profit.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 26: Statement of financial position

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A statement of financial position shows the value of a business's assets and liabilities [1] at a particular time [1].

- b** *(Up to 4 marks are available)*

An asset is an item of value that is owned by a business [1] such as machinery [App].

A liability is a debt owed by the business [1] such as an overdraft if TT had one [App].

- c** *(Other answers are possible; 6 marks are available)*

Advantage: it makes sure TT has fuel [App] when it might have an increase in demand for taxi services [1] and if fuel stations are closed, it could make it difficult to obtain fuel and provide the service if there was no inventory of fuel available [1].

Disadvantage: it ties up cash in the form of inventory [1] and it could make the business run short of working capital [1]. This could make it difficult for Ted to pay the wages of his taxi drivers [App].

- d** *(Up to 8 marks are available)*

Yes: it is a good decision as he does not have an overdraft at the moment and has \$10 000 in cash. This suggests that TT is in a good position to repay the bank loan and the bank should be willing to give the loan to TT.

No: it is not a good decision as it already has a bank loan for \$100 000 and it may struggle to repay the interest on another bank loan. It may find it difficult to repay the existing bank loan and the bank may not be willing to loan TT any more money until it has repaid some of the existing bank loan.

Overall conclusion/judgement needed: for example, yes, Ted's decision to ask for an additional bank loan is a good one as TT is in a sound financial position with cash in the bank and no overdraft. It has an existing long-term bank loan for \$100 000 but it has plenty of security as its non-current assets are worth a total of \$1 100 000 which should reassure the bank to give the loan.

Up to 2 marks for identification of arguments for increasing long-term liabilities to purchase non-current assets.

Up to 2 marks for identification of arguments against increasing long-term liabilities to purchase non-current assets.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 27: Analysis of accounts

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a $\text{Gross profit margin (\%)} = \frac{\text{Gross profit}}{\text{Revenue}} [1] \times 100 [1]$

b (Up to 4 marks are available)

Revenue might fall [1] due to lower sales or lower prices charged for each taxi ride [App].

The cost of sales might be higher [1], for example, if the cost of fuel increases [App].

c (Up to 6 marks are available)

Increase revenue by more than expenses [1] by increasing the sales of truck transportation to other businesses [App], using promotion methods to attract more customers [1].

Reduce costs [1], such as the expenses for his taxi offices [App], and if revenue stays the same then profit will increase [1].

d (Up to 8 marks available)

Yes: the profit margin is higher for TT than Business A. The profit margin is still high and suggests that Ted is keeping the overhead costs of the business low.

No: his gross profit margin and ROCE are both lower than Business A by 5% and 2.5% respectively, indicating that Business A is controlling its cost of sales better than Ted and is better at making a profit margin on assets invested.

Overall conclusion/judgement needed: for example, it depends on how these profitability ratios compare with previous years for TT and the industry average.

Up to 2 marks for identification of arguments that Ted should be satisfied with the profitability of TT compared with the other business.

Up to 2 marks for identification of arguments that Ted should not be satisfied with the profitability of TT compared with the other business.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a $\text{Current ratio} = \frac{\text{Current assets [1]}}{\text{Current liabilities [1]}}$

or

$\text{Current ratio} = \text{Current assets [1]} : \text{Current liabilities [1]}$

b (Up to 4 marks are available)

Inventory levels might be reduced [1] because TT is not storing as much fuel as before [App].

Current liabilities might increase [1] if TT allows more than three months for his business customers to pay [App].

c (Up to 6 marks are available)

Advantage: ensures current liabilities can be paid [1] so Ted may have enough cash to pay for the trade credit [1] that is due to be paid one month after the purchase of fuel [App].

Disadvantage: it means that TT might have a lot of accounts receivable owing [1], such as businesses using the truck services that have not paid [App], making the cash flow worse [1].

d (Up to 8 marks are available)

Yes: the current ratio is good in that TT has enough current assets to pay its current liabilities by one and a half times – this is better than Business A as this business can only just meet its current liabilities.

No: the acid test ratio shows that without inventory, TT cannot pay all its current liabilities. Business A has enough or nearly enough current assets after inventories have been taken away to cover the current liabilities that need to be paid.

Overall conclusion/judgement needed: for example, yes, as long as its trade creditors give TT sufficient time to repay its liabilities.

Up to 2 marks for identification of arguments that Ted should be satisfied with the liquidity of TT compared with the other business.

Up to 2 marks for identification of arguments that Ted should not be satisfied with the liquidity of TT compared with the other business.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 5: End-of-section case study

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a (Up to 8 marks are available)

To take to the bank when applying for a bank loan: to show the manager that TT can afford to repay the loan after there will be an increase in revenue from the investment of purchases of trucks.

To use it to budget and manage the cash in the business: so that Ted does not run out of cash but monitors how much he expects to receive in revenue from the taxi and truck business each month and how much he thinks will need to be paid out for fuel and wages each month.

b (Up to 12 marks are available)

Ted takes out a bank loan to buy 2 new trucks: increased interest payments shown as expenses on the statement of profit or loss; reduced profit unless revenue from the trucks has increased; statement of financial position shows bank loan as non-current liability and non-current assets increased by the value of the trucks.

Ted buys inventory only using trade credit: no effect on the statement of profit or loss but the statement of financial position would show increased current liabilities.

There is an increase in the number of TT's taxi customers: increased revenue on the statement of profit or loss and increased cost of sales from wages and fuel paid for the additional journeys. The statement of financial position shows no effect unless any increased profit is added to the reserves of TT.

Conclusion: reasons given for the choice and reasons why the other two changes will have less, if any, effect on the transport business.

2

a (Up to 8 marks are available)

Internal finance: retained profit – no interest is payable so this is a cheaper method of buying trucks.

Internal finance: sale of surplus assets – to pay for fuel or wages.

External finance: issue of new shares to family and friends – does not have to be paid back to the owners of the private limited company.

External finance: bank loan – TT has been in business for several years so it might be relatively easy to obtain in order to pay for new taxis.

b (Up to 12 marks are available)

Gross profit margin

Gross profit = Revenue – Cost of sales

$$= \$600\,000 - \$30\,000$$

$$= \$570\,000$$

$$\frac{\$570\,000}{\$600\,000} \times 100 = 95\%$$

Last year = 90%

Improved: suggests higher prices or lower cost of sales

Profit margin

Profit = Gross profit – Expenses

$$= \$570\,000 - \$520\,000 = \$50\,000$$

$$\frac{\$50\,000}{\$600\,000} \times 100 = 8\% (8.33\%)$$

Last year = 10%

Worsened: suggests higher expenses

Current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$= \frac{\$62\,500}{\$50\,000} = 1.25$$

Last year = 1.5

Worsened: but can still cover all current liabilities so not a problem

Acid test

$$\text{Acid test ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

$$= \frac{\$62\,500 - \$12\,500}{\$50\,000} = 1$$

Last year = 0.75

Improved: can now cover all current liabilities without inventories so there is no problem with liquidity

Conclusion: gives a clear supported conclusion including the calculations and reasons for saying if the results are better or worse.

Section 6: External influences on business activity

Chapter 28: Economic issues

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Unemployment occurs when people who are willing and able to work [1] cannot find employment [1].
- b** (1 mark for each correct stage; 4 marks are available)
Growth; Boom; Recession; Slump
- c** (Up to 6 marks are available)
More difficult to find skilled employees [1] as many other motorbike manufacturers in Country X are also expanding [App], leading to increased wage rates and increased costs for ABC [1].
Local component manufacturers may increase their prices due to higher demand [1], leading to increased costs for ABC and lower profits [1] if prices of ABC motorbikes are not increased as well [App].
- d** (Up to 8 marks are available)
Yes: as this will mean incomes are rising and so sales of most consumer products, including motorbikes, should increase, leading to higher revenue for ABC and possibly higher profit if costs do not increase more than revenue increases.
No: because it will be harder to recruit skilled employees to add to the 500 already employed in the factory if ABC wants to expand its output of motorbikes; it will take longer to fill each vacancy.
Overall conclusion/judgement needed: for example, it depends on the level of unemployment and if the unemployed people have the right skills required to produce motorbikes.

Up to 2 marks for identification of arguments that a business will always benefit from falling unemployment.

Up to 2 marks for identification of arguments that a business will not always benefit from falling unemployment.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Economic growth occurs when real GDP increases [1], which is the value of GDP after taking inflation into account [1].
- b** (Up to 4 marks are available)
Less profit available after tax [1], which will leave less to be paid in dividends [App].

Less retained profit available as a source of funds [1] to be used for producing a higher output of motorbikes [App].

c (Up to 6 marks are available)

Advantage: higher interest paid on savings for savers [1] which may give them more income to buy products such as motorbikes [App] so sales and revenue for ABC may increase [1].

Disadvantage: interest paid on bank loans will increase [1], making it less likely for ABC to take out loans as it will be more expensive [1]. This will make it more difficult for ABC to update the capital-intensive machinery used in the factory [App].

d (Up to 8 marks are available)

Increase in tax on people's incomes will reduce disposable income/they will have less income left after paying tax, making them less likely to buy ABC's motorbikes. Demand for ABC's products will fall and revenue may be lower.

ABC may have to reduce the prices of its motorbikes to try to remain competitive as people have less money to spend on non-necessities; as ABC's target market is already lower-income consumers this may not have such a big impact.

Overall conclusion/judgement needed: for example, the reduction in disposable incomes will have the greatest effect on ABC's sales as motorbikes are mainly sold to low-income consumers and they will have less income available to spend on motorbikes.

Up to 4 marks for identification of two effects on a business of an increase in taxes on people's incomes.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 29: Business and the international economy

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A multinational company is one with factories, production or service operations [1] in more than one country [1].

b (Up to 4 marks are available)

ABC would be able to import components for motorbikes from low-cost countries if there are now no import tariffs [App]. This would make it cheaper to produce each product [1].

ABC could start exporting motorbikes to as many other countries as it wants to [App] because markets in other countries become easier to export to if there are fewer restrictions on trade as a result of increased globalisation [1].

c (Up to 6 marks are available)

It may be easier to employ workers at low wage rates [1] and therefore the costs of producing each motorbike may be lower [App], increasing the profit margin [1].

It may avoid barriers to trade [1] if the production facilities are moved to other countries where the products are sold [1], therefore avoiding tariffs and making ABC more competitive with local motorbike producers [App].

d (Up to 8 marks are available)

Yes: increased variety of goods and services, for example, motorbikes, at a lower price for consumers; more competition for local businesses which might force them to become more efficient.

No: Increased competition for local businesses could drive some of them out of business which would increase unemployment. The profits of the MNC might be sent to its home country and this would reduce any benefit to the country in which it operates. There might be depletion of the country's natural resources.

Overall conclusion: It depends on what type of business it is, e.g. is its production process very polluting? The government should encourage MNCs if they will increase the number of jobs substantially in the country and leave their profits in the country to benefit the economy.

Up to 2 marks for identification of arguments that the government of a country should encourage more multinationals to set up in that country.

Up to 2 marks for identification of arguments that the government of a country should not encourage more multinationals to set up in that country.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Appreciation of an exchange rate occurs when the value of the currency rises [1] and it buys more of another currency than before [1].

b (Up to 4 marks are available)

The ABC factory may be built in an area of natural beauty [App] which will reduce the areas that local people can visit and enjoy [1].

There may be congestion on local roads [1] as more trucks will go in and out of the ABC factory, causing the road to have traffic jams when exporting motorbikes [App].

c (Up to 6 marks are available)

ABC understands the culture of the home country, Country X [1] so it can produce the style of motorbikes that are popular in Country X [App], therefore the revenue will be higher for ABC [1].

ABC will understand the laws in Country X [1]. This means the motorbikes will meet the requirements for emissions [App] so ABC will not have any problems in meeting these requirements and therefore sales will be higher [1].

d (Up to 8 marks are available)

Yes: ABC should benefit as 50% of its imports of components are from other countries sent to Country X and they will now be cheaper. This should lower the average cost of production for ABC's motorbikes and will allow ABC to reduce its prices to become more competitive or increase its profit.

No: ABC will not benefit from an appreciation in the exchange rate of Country X if it exports motorbikes produced in Country X as they will now be more expensive in other countries, making them less competitive and likely to have lower sales.

Overall conclusion/judgement needed: for example, ABC imports 50% of its components into Country X while its competitors import 100% of their components so it is less likely to benefit from the lower cost of imported inventories than its competitors. ABC's competitors are more likely to be able to reduce prices and be more competitive than ABC and ABC may have lower sales after the appreciation.

Up to 2 marks for identification of arguments that a business will benefit from an appreciation of the exchange rate in its home country.

Up to 2 marks for identification of arguments that a business will not benefit from an appreciation of the exchange rate in its home country.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 30: Business and the environment

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Pollution is the introduction of harmful materials [1] into the environment [1].

b *(Up to 4 marks are available)*

ABC will need to develop new products [1] that have lower emissions when used [App].

If competitors' products already meet all legal controls, then consumers might switch to these products [1] and reduce demand for ABC's motorbikes [App].

c *(Up to 6 marks are available)*

Advantage: ABC's energy costs will reduce in the future [App] when the solar panels are installed and generating electricity for the factory [1]. This will reduce ABC's expenses, possibly leading to higher profits if revenue remains the same [1].

Disadvantage: solar panels for the factory are expensive to buy and install [App] which will mean ABC will have to find additional finance to pay for the panels [1] and this could result in the company taking out bank loans which will increase interest costs [1].

d *(Up to 8 marks are available)*

Yes: this will improve its reputation and encourage more customers who are keen to only buy products that have been produced using environmentally friendly methods, where less waste is produced. This may increase sales and revenue.

No: it will increase costs as ABC will spend money developing processes that create less waste and these processes are usually more expensive than existing processes. This will increase costs, putting pressure on ABC to increase prices or accept lower profit margins.

Overall conclusion/judgement needed: for example, it depends on customer preferences and if prices have to rise.

Up to 2 marks for identification of arguments that a business should respond to environmental issues by reducing the waste produced during manufacturing.

Up to 2 marks for identification of arguments that a business should not respond to environmental issues by reducing the waste produced during manufacturing.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 31: Business and ethical issues, and pressure groups

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Making ethical decisions means taking decisions that are based on a moral code [1] and are seen to be ‘doing the right thing’ [1].

- b** *(Other answers are possible; 4 marks are available)*

Whether to employ child labour [1] when manufacturing motorbikes [App].

Whether to pay fair prices to suppliers [1] of components for the ABC factories [App].

- c** *(Up to 6 marks are available)*

Advantage: the reputation of the business is likely to be better [1] as the production of motorbikes will be using ethical business practices [App] which could make ABC more attractive to consumers who are concerned about the practices used by the business, and this will increase its sales [1].

Disadvantage: supplies from ethical suppliers might cost more [1], which means higher costs of components [App], leading to higher prices [1].

- d** *(Up to 8 marks are available)*

Pressure groups could encourage a consumer boycott of the motorbikes produced by ABC, so ABC might have to change the production processes or potentially lose customers to competitors if their motorbikes produce lower emissions. It depends on whether competitors’ motorbikes are similar to ABC’s.

Pressure groups could advertise to the public about the harm done by emissions from motorbikes. This would give ABC a bad reputation and make consumers less likely to buy from ABC, causing lower sales. However, the advertising may not be seen by potential customers if inappropriate advertising methods are used.

Overall conclusion/judgement needed: for example, if alternative motorbikes are available from competitors then boycotts are likely to be more effective than just advertising about the harm done by emissions as sales may fall by a considerable amount.

Up to 4 marks for identification of two ways pressure groups could influence the decisions made by a business.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 6: End-of-section case study

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a (Up to 8 marks are available)

Reduce emissions from new motorbikes produced and sold in other countries.

Reduce waste from the factory owned by the company that was set up 50 years ago.

Purchase motorbike components from other businesses that are environmentally friendly to reduce overall waste produced.

Use less energy by using renewable sources in its factories in other countries, such as solar panels.

b (Up to 12 marks are available)

Falling unemployment: may be more difficult to recruit production employees, leading to rising wage rates, but higher incomes from more people being employed may lead to higher demand for motorbikes, so sales of ABC motorbikes might increase.

Falling interest rates: the cost of bank loans will reduce, leading to lower costs. This will make it easier to obtain finance for expansion of motorbike production in other countries.

Depreciation in the exchange rate of Country X: export prices of motorbikes will be reduced but the cost of imported components will be increased and ABC imports half the components it uses. The price of competing imported motorbikes will also increase.

Conclusion: overall conclusion/judgement needed, including reasons given for the choice and reasons why the other two changes will have less, if any, effect on the business.

2

a (Up to 8 marks are available)

Bad reputation: fewer customers will want to buy motorbikes produced by ABC; the business will lose sales to competing motorbike companies either imported or home-produced.

Employees may not want to work for ABC as it is thought of as a bad employer: this will make it harder to recruit new employees for the factory if output is expanded and ABC decides to export if it becomes a multinational company.

b (Up to 12 marks are available)

Set up its own factories to manufacture its products in the main markets in other countries: more control over the manufacturing process; set up using the capital-intensive systems used in Country X; increased costs and difficulties with regulations in other countries; may need to increase the wages of production employees so they will go and live in other countries to work in the new factories.

Produce new, different styles of motorbikes for the main markets in other countries but keep production in Country X: maintain control over production processes and keep experienced production employees; new model will be aimed at new markets so can be designed to meet customer needs in the market in another country and so increase sales, but more difficult to research these needs and may get it wrong; expensive investment in new facilities.

Recommendation: overall conclusion/judgement needed, including reasons for rejecting the other option.