

# A-LEVEL STUDENT GUIDE

AQA

# Business

## Topics 1–6

- What is business?
- Managers, leadership and decision making
- Decision making to improve marketing performance
- Decision making to improve operational performance
- Decision making to improve financial performance
- Decision making to improve human resource performance

Neil James

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# Getting the most from this book

## Exam tips

Advice on key points in the text to help you learn and recall content, avoid pitfalls, and polish your exam technique in order to boost your grade.

## Knowledge check

Rapid-fire questions throughout the Content Guidance section to check your understanding.

## Knowledge check answers

- 1 Turn to the back of the book for the Knowledge check answers.

## Summaries

- Each core topic is rounded off by a bullet-list summary for quick-check reference of what you need to know.

## Exam-style questions

## Commentary on the questions

Tips on what you need to do to gain full marks.

## Sample student answers

Practise the questions, then look at the student answers that follow.

**Questions & Answers**

(b) Explain why SailAway might have decided to outsource the running of its website. (7 marks)

The command words here, **explain why**, mean that **analysis** is required, which should of course be undertaken in the **context** of SailAway.

(c) Analyse the importance of product design and low wastage to the success of SailAway. (9 marks)

Use of the command word **analyse** requires you to develop an in-depth argument as to the importance of product design and low wastage specifically in the **context** of SailAway.

(d) To what extent do you believe digital sales through its website rather than new retail outlets are the key to SailAway's future success? (15 marks)

Use of the command words to **what extent** means that judgement is required. Try to look at both sides and draw conclusions using **context** to support your answer.

**Student A answer**

(a) Profit margin refers to the percentage of revenue that is profit. It is calculated by:

$$\frac{\text{profit}}{\text{revenue}} \times 100$$
$$\frac{1.175}{7.3} \times 100 = 16.10\%$$
$$\frac{1.875}{9} \times 100 = 20.83\%$$

SailAway has only achieved its objective in 2019 as in 2018 the profit margin was only 16.10%. This is probably why it increased its prices for 2019 in order to achieve the 20%.

**Student B answer**

(a) Profit margin is calculated by:

$$\frac{\text{profit}}{\text{revenue}} \times 100$$
$$\frac{1.875}{9} \times 100 = 20.83\%$$

Yes, it has achieved its objective of a 20% profit margin.

**Student A answer**

(b) Outsourcing or subcontracting involves getting an external business to produce a product or provide a service for you. In this case SailAway has outsourced the management of running its website. There are a number of reasons why the company might have done this. One of the most important reasons is

Correctly answers the question.  
**8/5 marks awarded**

Only the profit margin for 2019 has been calculated.  
**3/5 marks awarded**

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## Commentary on sample student answers

Read the comments showing how many marks each answer would be awarded in the exam and exactly where marks are gained or lost.

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## About this book

This Student Guide has been written to provide you with the ideal resource for your revision of AQA A-level Business (7132). In your study of the subject you will look at business in a variety of contexts, small and large, national and global, service and manufacturing.

The overall focus of Student Guide 1 is decision making in the various functional areas, the influences on those decisions and the impact they may have on stakeholders. Central to the AQA specification are the following themes:

- how developments in technology are affecting decisions in the functional areas
- the influence of ethical and environmental issues on decisions in the functional areas
- how decision making in the various functional areas improves competitiveness
- the interrelationship between decision making in the various functional areas

The focus of Student Guide 1 is the following:

- what a business is, its nature and purpose, its different forms and the external environment in which it operates
- management, leadership and decision making, together with the role of stakeholders
- decision making to improve marketing performance
- decision making to improve operational performance
- decision making to improve financial performance
- decision making to improve human resource performance

## Content Guidance

The Content Guidance section offers concise coverage of the specification providing an overview of key terms and concepts as well as exam tips where appropriate.

## Questions & Answers

The Questions & Answers section provides examples of the various types of question you are likely to face, together with sample answers and examiner comments.

Overall this guide, used well, should provide you with the necessary knowledge, exam practice and examiner guidance to be able to succeed in your A-level exam.

# Content Guidance

## ■ What is business?

### Understanding the nature and purpose of business

#### Why businesses exist

A business is any organisation set up to service or satisfy the wants and needs of people. There are a number of reasons for setting up a business, including to provide:

- goods and services (including **public services**)
- money for owners (profit)
- help and support for others (charitable organisations)

#### The relationship between mission and objectives

An organisation's mission statement gives the big picture of the business and represents its vision, core purpose and values. It is sometimes seen as the philosophy that guides how a business operates. For example, Tesco's mission statement is: 'We make what matters better, together', whereas Sainsbury's is: 'Our mission is to be the consumer's first choice for food, delivering products of outstanding quality and great service at a competitive cost through working faster, simpler and together'.

A business's objectives are more specific. They are targets or goals that will enable an organisation to achieve its overall mission. In other words, the mission statement gives a direction or focus for the objectives that have been set and, by having objectives, a business can work towards achieving its mission.

As well as overall business objectives, each functional area of a business has its own set of objectives enabling it to contribute to the overall business objectives and mission. All objectives must be **SMART**:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**ealistic
- **T**ime-based

For example, increasing sales revenue by 5% in the next year is a SMART objective, whereas simply having an objective to increase sales is not.

The relative importance of different objectives is likely to vary over time depending on circumstances. In difficult economic times, survival is likely to be more important than profit or environmental targets. However, in a booming economy, profit, growth and social issues will take on far more important roles.

#### **Public services**

Services provided by the government or local authority, for example the NHS, police force, fire service and rubbish collection. (See pp. 7–8 for more information on the public sector.)

#### **Knowledge check 1**

Write down three reasons why businesses exist.

#### **Knowledge check 2**

Briefly outline the difference between the mission statement and objectives.

#### **Knowledge check 3**

What is meant when we say that all business objectives should be SMART?

#### **Exam tip**

The relative importance of business objectives changes over time and depends on the individual business and the circumstances in which it is operating.

## Common business objectives

The overall business objectives are targets that have been set for the whole business and are often referred to as **corporate objectives**. These might include:

- **profit** — vital for the long-term health and security of a business
- **growth** — in terms of market share or sales turnover
- **survival** — important for many businesses in times of economic uncertainty and for all businesses when first starting out
- **cash flow** — for many smaller businesses, cash flow may be more important than profit
- **customer service** — to gain loyal customers in a competitive marketplace

In addition, **corporate social responsibility (CSR)** has become an increasingly important objective. This relates to how a business treats its workers and suppliers and the environment, including the use of sweatshops, fair trade and pollution.

## Why businesses set objectives

Having objectives is important for the business and each functional area for a number of reasons:

- Objectives give meaning to planning and enable the business to remain focused.
- The business can measure and review performance. As a result, its objectives may be revised or corrective action may be taken, depending on the circumstances.
- Objectives provide a motivation for those responsible for implementing plans.

## The measurement and importance of profit

**Profit** is the reward the owners of a business receive for taking the risk involved in setting up in business. Without profit as an incentive, there would be a general reluctance to set up in business. Profit is calculated as:

$$\text{profit} = \text{revenue} - \text{total costs}$$

**Revenue** (also known as turnover, sales or sales turnover) is the money received by a business from the sales of its products or services. It is calculated as:

$$\text{revenue} = \text{price per unit} \times \text{number of units sold (output)}$$

**Total costs** are the value of all business costs and may be split into fixed and variable costs:

- **fixed costs** are those that do not change with output: rent, rates, insurance premiums, etc.
- **variable costs** are those that vary directly with output: raw materials, direct labour, etc.

## Understanding different business forms

### Private sector and public sector

In the UK there are a number of different forms of business, but before we look at these it is necessary to distinguish between the private sector and the public sector.

### Corporate social responsibility (CSR)

A company's sense of responsibility towards the community and the environment in which it operates.

#### Exam tip

Business is examined largely through case studies, so your answers should be linked specifically to the business in the case study. This is the skill of application.

**Profit** The reward the owners of a business receive for taking on the risk of starting a business.

The **private sector** is that part of the economy where a business is owned and controlled by an individual or a group of individuals. There are a number of different types of business in the private sector, such as sole traders, partnerships, private limited companies, public limited companies, charities and mutuals.

The **public sector** is that part of the economy that is owned and controlled by the government or local authorities. In the UK this means a number of the public services such as the police force, fire service, the BBC and the NHS, as well as local council-run services such as refuse collection. The public sector used to include a number of key nationalised industries and utilities such as coal, steel, water and telephone, but these have largely been sold off to the private sector through **privatisation**.

### Sole traders and partnerships

These are **unincorporated businesses**, meaning there is no distinction in law between the owner and the business itself. Typical examples include small shopkeepers, plumbers, joiners and electricians.

#### Advantages

- They are easy to set up with few legal formalities.
- The owner takes all the profit.
- They have financial privacy as their financial affairs do not have to be published.
- They have greater independence than other legal structures and as a result may be more responsive to changes in circumstance.

#### Disadvantages

- They have unlimited liability so the owner's personal assets may be used in the event of failure.
- They have limited capital and access to capital (loans) for expansion.
- Their business skills may be limited.
- Problems may arise if the owner is ill or wishes to take a holiday.

### Private limited companies (Ltd)

Private limited companies have at least two owners (shareholders) and are **incorporated businesses** under the Companies Act. Generally, private limited companies are small to medium-sized businesses that are family owned. Some well-known larger examples include Clarks (shoes), Baxters (soups and preserves) and Walkers Shortbread (biscuits).

#### Advantages

- The owners have limited liability.
- They have access to a greater amount of capital than unincorporated businesses.
- They have greater privacy than public limited companies.
- They have less pressure from outside investors and greater flexibility.

#### Disadvantages

- They are more difficult to set up than unincorporated businesses.
- Although they have access to a greater amount of capital than unincorporated businesses, they have access to less capital than public limited companies.
- Financial information is accessible to outsiders.

**Privatisation** The process of transferring ownership of government-owned and controlled industries or businesses to the private sector.

**Unincorporated businesses** Those where there is no distinction in law between the individual owner and the business itself.

#### Knowledge check 4

Identify three advantages of being a sole trader.

**Incorporated businesses** Those that have a legal identity separate from the individual owners. This means that the owners have limited liability and are not responsible personally for the debts of the business.

#### Knowledge check 5

What is the difference between an incorporated business and an unincorporated business?



## Public limited companies (plc)

Public limited companies are owned by shareholders who buy and sell shares through the stock market. Although there are some large and well-known private limited companies, public limited companies tend to be the largest, e.g. BP, Shell, Marks & Spencer, and Next.

### Advantages

- The shareholders have limited liability.
- They have access to greater amounts of capital.
- They have greater power over suppliers regarding credit terms.

### Disadvantages

- They have to publish greater amounts of financial detail leading to more scrutiny of their affairs.
- The original owners are likely to lose control of the business.
- Pressure from investors may result in greater emphasis on short-term profit rather than long-term performance.

## Non-profit organisations

Other types of organisation in the private sector are non-profit organisations such as **charities** and **mutuals**. Charities may be large fundraising organisations such as Cancer Research, Winston's Wish or the Red Cross, or they may be smaller charitable trusts designed to manage assets such as money, investments or land. Mutuals are interesting as they are generally private businesses whose ownership base is made up of its clients and policy holders, for example insurance companies and some building societies. Although both these examples have traditionally been organised in this way, many big insurance companies and building societies have tended to become public limited companies.

## Reasons for choosing different forms of business

Business owners have to choose the structure that will best meet their needs. The choice of business structure depends on a number of factors:

- the potential risks and liabilities of a business — the greater the risk and liabilities, the greater the need for incorporation and limited liability
- the product or service being offered — the more risky the product or service, the greater the need for incorporation
- the formalities and expenses of setting up — sole traders are easy to set up with few formalities and costs, so unless a business is particularly risky or requires access to large amounts of capital, an unincorporated business would probably be appropriate

## Reasons for changing business form

- A change in circumstances, such as the growth of a business, may mean that the owner wishes to incorporate their business in order to benefit from limited liability.
- The owner may find it easier to raise capital by becoming incorporated or, in the case of a private limited company, by changing it to a public limited company.

### Exam tip

When discussing limited liability in answers, always relate it to the business in question. Why would that business benefit from limited liability?

### Knowledge check 6

What do you understand by the term 'mutual'?

- Acquisition or takeover may cause a change of structure, for example a private limited company may be taken over by a public limited company.
- Sometimes a business may move from being public limited to private limited in order to distance itself from the constant scrutiny of the City.

### The role of shareholders and why they invest

Individuals can invest in public limited companies to become shareholders and part owners of the business. As shareholders they have certain rights and a role to play in the running of the business.

Major decisions that will have an impact on shareholders are required to be approved by them at a general meeting called by the directors. Their main role therefore is to attend this meeting and discuss whatever is on the agenda, ensuring the directors do not go beyond their powers. There are also certain things that can be done only by shareholders such as the removal of directors or changing the name of a company. In practice, for individual shareholders this means very little as they normally own only a small proportion of the issued shares. The biggest shareholders in public limited companies are usually financial institutions, pension funds, insurance companies, etc.

People invest in shares primarily for two reasons:

- **Income.** Shareholders are entitled to a share of company profits known as a **dividend**.
- **Capital growth.** Shareholders hope that the value of their shares will increase over time.

### Influences on share price and the significance of share price changes

The share price of any company can fluctuate both positively and negatively. Reasons include:

- performance — better or worse than expected profits
- expectation — of better or worse profit performance
- changes — within the market or competitive environment
- world uncertainty — such as conflict in the Middle East

**Market capitalisation** is calculated as:

$$\text{market capitalisation} = \text{share price} \times \text{number of shares issued}$$

It gives a valuation of the company — its net worth. Changes in the share price therefore affect the valuation of the business. A falling share price might provide an opportunity for investment or takeover, or it might be an indication of a business in decline.

### The effects of ownership on mission, objectives, decisions and performance

Public limited companies are owned by shareholders who are driven by profit, which can lead to a short-term approach to business. Decision making may be made more on the basis of achieving profit and the philosophy outlined in the mission statement may take a 'back seat'. This emphasis on profit was demonstrated by Tesco in autumn 2014 when it was shown to have made mistakes in reporting profits higher than they

#### Knowledge check 7

List three things that might influence the choice of legal structure for a business.

#### Exam tip

When deciding on the most appropriate legal structure for a business, base any recommendation on the circumstances of the individual business, its size, the product or service and the risk involved.

**Dividend** A share of the after-tax profit of a company distributed to its shareholders according to the number of shares held.

#### Knowledge check 8

Identify three factors that might cause a company's share price to fall.

#### Market capitalisation

This is equal to the share price multiplied by the number of shares issued.

#### Knowledge check 9

Outline briefly what is meant by 'market capitalisation'.

actually were. These failings led to a big fall in Tesco's share price. Sole traders and private limited companies are less affected by this need to achieve profits and may be able to keep a closer focus on their mission statement and objectives.

## Businesses operate in an external environment

A business does not operate in a vacuum. It is subject to influences from the external environment which will have an impact on demand, costs and the way it operates in general.

### How the external environment can affect costs and demand

External influences on a business can affect its ability to achieve its strategic goals and objectives. By external it means they are beyond the control of the business and include competition, market conditions, economic and demographic factors and environmental issues. Such factors can affect both demand for a product or service and the costs of operating a business. Some of these influences are unpredictable, whereas some influences change regularly, but whatever the case a business is likely to have to take action to cope.

#### Competition

As **monopolies** are illegal in the UK, all businesses face competition from others offering a similar or the same product. If an individual business differentiates its product from that of its competitors with a **unique selling point** (USP), it might be able to increase demand. Alternatively, if its competitor releases a new, more technologically advanced product or additional facilities, demand could fall. If the products are relatively the same, such as in the grocery market, there will be pressure to reduce price and lower costs in order to maintain profitability.

#### Market conditions

Market conditions are the characteristics of a market into which a business is entering or into which a new product is being introduced. Such characteristics might be the number of competitors, the intensity of competitiveness and the market's growth rate. A market with high growth and a low intensity of competitiveness is likely to present greater opportunities for higher demand than one where the opposite conditions prevail.

#### Economic factors

These might include the stage of the economic cycle, interest rates, inflation and exchange rates. Looking specifically at interest rates, any change can have a big impact on business.

Interest rates have a direct impact on the cost of borrowed money: it is cheaper to borrow at times of low interest rates. The level of rates and their expected level is likely to be a key influence on decisions to invest.

The level of interest rates can affect demand: rising interest rates could mean lower demand as consumers who have borrowed money are likely to face higher interest payments and have less disposable income as a result. Other consumers might also be encouraged to save more because of rising interest rates. Falling interest rates are likely to have the opposite effect.

#### Exam tip

Don't assume that the influence of the external environment will always be negative: it can also be positive. Examine the circumstances of the business in any stimulus material in order to decide whether the influence is positive or negative.

**Unique selling point** A real or perceived benefit of a good or service that differentiates it from competing brands and gives its buyer a logical reason to prefer it over other brands.

If a business has large cash reserves it could benefit from rising interest rates because of the higher interest received.

### *Demographic factors*

Demographic factors refer to the socio-economic characteristics of the population such as age, sex, income and occupation by which a business might segment the market, as well as birth and death rates, the level of public health and immigration. All of these factors may have an influence on the level of demand for a business and the type of products and services on offer.

### *Environmental issues and fair trade*

Environmental issues cover a broad area and can have a big impact on the way a business operates and its costs of production, as well as potentially influencing consumer demand.

No longer can a business carry out production without regard for its local environment. Any hint of pollution in the UK can be quickly brought to public attention through social media, for example, and pressure groups can have a significant impact on the business(es) responsible.

The concern for the environment is, to some extent, being driven by factors such as climate change and **sustainable development**. There is concern that carbon emissions are a contributing factor to global warming and that businesses and governments should be doing more to cut carbon emissions. There is also a worry that certain resources are running out and so we should try to conserve and sustain them. For example, the fishing industry is subject to quotas and some paper manufacturers now say they plant one new tree for every one they cut down.

**Fair trade** is about better prices, decent working conditions and fair terms of trade for farmers and workers in developing countries. This is likely to mean higher costs for a business, but it could lead to greater demand and a better reputation, as well as acting as a unique selling point.

These external factors can have a significant impact on the demand for products and services provided, the costs incurred and any profit made. Some changes such as demographic ones can be identified, and others such as interest rates changes can be anticipated, allowing any negative impact on cost and demand to be minimised and any positive impact maximised.

### Summary

In this section you need to know about:

- The reasons businesses exist
- Mission statements and objectives
- Profit, revenue and costs
- Private and public sector businesses
- Shareholders and market capitalisation
- The external environment

### Knowledge check 10

Briefly outline how a business might benefit positively from a fall in interest rates.

### Sustainable

**development** Where a business aims to meet the needs of the present without compromising the ability of future generations to meet their needs.

### Knowledge check 11

Why might a business adopt a fair-trade approach?

# Questions & Answers

This section contains a variety of exam-style questions that you are likely to encounter. These include multiple-choice, short-answer and essay questions (Paper 1), data-response questions (Paper 2) and a case study with questions (Paper 3). The multiple-choice and short-answer questions aim to give a broad coverage of the content of this book. For the essay, data-response and case study questions, although the focus of the questions is the content of this book, you are encouraged to draw upon your broader knowledge of the whole syllabus, where appropriate, when answering.

For each short-answer, essay, data-response and case study question you will find sample answers with exam advice. One of the sample answers will be a good response and the other a weaker answer, with the aim of illustrating common errors made by students and examples of good practice in the hope that you will, with practice, be able to develop your own skills.

## Questions

Along with the knowledge check questions in the Content Guidance section of the book, the multiple-choice and the 3–6-mark short-answer questions are useful in testing your overall knowledge and understanding of the specification. The higher mark allocation short-answer questions (7–9 marks), and the data-response, case study and essay questions will not only test your knowledge and understanding but also your ability to apply that knowledge appropriately and, where necessary, in an analytical and evaluative way.

## Sample answers

The sample answers and the commentary that accompanies them should provide you with hints and clues on how to improve your examination technique. Resist the temptation to study the answers before you have attempted the questions. If you make a mistake here it is not the end of the world, and practice in developing your own responses will help you to hone your skills. Once you have written your answer, look at the sample responses and identify the strengths and weaknesses of your own work. Using the Questions & Answers section in this way should result in the quality of your answers improving and higher marks in the future.

## Assessment

A-level exam papers do not just test how well you know the content of the subject. There is a clear set of skills that are tested and it is essential that you are aware of these and have some idea of how to satisfy them. The following skills are tested:

- **Knowledge and understanding (AO1).** This relates to the content of the specification and how well you know and understand the various business concepts, theories and ideas.

## Paper 1 Short-answer questions

- 1 Briefly explain the difference for a supermarket between pricing tactics and pricing strategies.

(4 marks)

Just a straightforward brief explanation required here.

### Student A answer

Pricing strategies are medium- to long-term policies such as skimming or penetration pricing aimed at achieving the supermarket's marketing objectives. Tactics however are short term, designed to suit particular situations, such as loss leaders which aim to get consumers into the store.

This response demonstrates a good understanding and is set in the context of a supermarket.

**4/4 marks awarded**

### Student B answer

Pricing strategies are plans developed to achieve marketing objectives whereas tactics are the actual pricing policies used such as skimming or loss leaders.

There is some understanding but no context in this response.

**2/4 marks awarded**

- 2 A well-known and successful soft drinks manufacturer, ABC Ltd, is looking to expand. Briefly explain how this expansion might be financed.

(6 marks)

For some students there may be the temptation to write all they know about sources of finance. Do not fall into this trap. Note that the question asks you to explain briefly and also that it is a 'Ltd' company: this will provide some **context** for your answer.

### Student A answer

There are a number of options available to ABC Ltd: retained profit, loans and share capital. Since ABC is a successful company it may well be that it has retained profit it can use. This would be the quickest and cheapest method. Also, being successful it should be able to easily negotiate a loan from its bank, this would take a little longer and there would be interest to pay on the sum borrowed. If the sum needed was particularly large, ABC, which is a private limited company, might consider becoming a plc and issue shares to the public, although this is likely to expose it to greater scrutiny from the business world.

A number of options are briefly explained here and clearly set in the context of the drinks manufacturer.

**6/6 marks awarded**

### Student B answer

Loans, shares and profit are sources of finance. Loans can be negotiated for a fixed time period but interest would have to be paid. Profit can be used immediately and would not involve any interest payments or need paying back. Shares also have no interest payments (although shareholders would like a dividend payment) and are unlikely to be repaid. For ABC Ltd it would all depend on what the loan is for and how much is needed.

This answer demonstrates knowledge and understanding but is distinctly lacking in context.

**3/6 marks awarded**

## Questions & Answers

3 The following information relates to XYZ plc and the market it operates in:

Market size 2018 £115

XYZ plc market sales 2018 £35m

Market growth from 2017 12%

(a) Calculate to two decimal places:

(i) XYZ's market share

(3 marks)

(ii) Market size in 2017

(3 marks)

(b) Assuming XYZ had sales of £33.5m in 2017 what was its market share for that year?

(3 marks)

This question is testing your numeracy skills. Where appropriate, write down formulas and make sure you show all your workings.

### Student A answer

(a) (i) Market share is calculated using the following formula:

$$\frac{\text{XYZ sales}}{\text{Total market sales}} \times 100$$
$$\frac{35}{115} \times 100$$
$$= 30.43\%$$

(ii) Market size in 2017 is calculated as:

$$\left( \frac{\text{2018 sales}}{112} \right) \times 100$$
$$\frac{115}{112} = 1.0267 \times 100 = \text{£}102.679\text{m}$$

(b) Market share for 2017:

$$\frac{33.5}{102.679} \times 100 = 32.63\%$$

Three correct answers with all workings shown. **9/9 marks awarded**

Incorrect answer — 2 decimal places stipulated. If this student had shown a formula and their workings it might have been possible to award some marks, but as the answer stands there is nothing of worth.

**0/3 marks awarded**

### Student B answer

(a) (i) Market share = 31%

(a) (ii) Market size 2017:

$$115\text{m} - 12\% = 101.2$$

Incorrect answer.

**0/3 marks awarded**

b) Market share 2017: 33.10%

This is an incorrect answer but is correct based on their market size figure of £101.2m. Marks can be awarded using the own figure rule.

**2/3 marks awarded**

- 4 A small local takeaway pizza business has identified a positive correlation between its well-known local team playing live on TV and the sales of its pizzas. Analyse how the owner might use this information to benefit the business.

(9 marks)

Not only does this question require knowledge and understanding of correlation, it also requires you to demonstrate how such a positive correlation might be used in the **context** of a takeaway pizza business. As the key command word of the question suggests, you must **analyse**.

#### Student A answer

Correlation refers to the connection between two or more variables. In this case there is a positive connection between the sale of pizzas and the local football team's live appearances on TV. This is extremely useful information, enabling the business to better prepare and plan. It will want to make sure it doesn't run out of ingredients and that it has enough staff to cope with the increase in demand. This is likely to involve arranging extra capacity for delivery and perhaps an extra worker in the kitchen preparing pizzas. Such preparation would help cope with the extra demand in an uninterrupted way meaning there would be less likelihood of complaints due to having to wait or slow deliveries. As such this would enhance its reputation as a business and could even lead to more customers at other times, all of which will help generate greater revenue and profit for the business.

This response demonstrates a depth and range of knowledge that is well developed, is in context and answers the question set.

**9/9 marks awarded**

#### Student B answer

Correlation refers to the relationship between two variables such as sales of a product and advertising. If that correlation is positive it means that sales volume rises with increased advertising. Such a positive correlation is very important for decision makers within the business as it will enable them to more accurately forecast sales. As a result a business may wish to increase production in preparation for a new advertising campaign. Thereby it can ensure it is able to fully satisfy demand and not miss out on potential revenue and profit.

Student B appears to have a good grasp of this area of the specification and provides some analysis but there is a clear lack of context, limiting the marks that can be awarded.

**4/9 marks awarded**