A-LEVEL
STUDENT GUIDE

AQA

Business

Topics 7–10

- Analysing the strategic position of a business
- Choosing strategic direction
- Strategic methods: how to pursue strategies
- Managing strategic change

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Contents

Content Guidance

Questions & Answers

9781510471993.indd 3 19/11/19 6:38 AM

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.

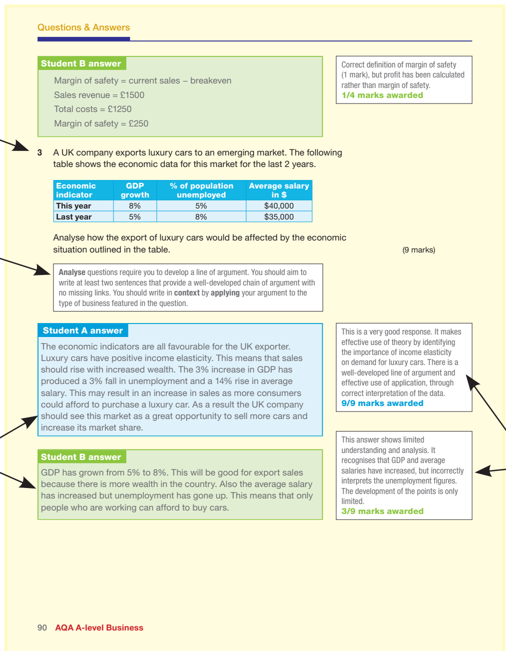
Exam-style questions

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

Student B answer

Margin of safety = current sales – breakeven
Sales revenue = £1500
Total costs = £1250
Margin of safety = £250

Correct definition of margin of safety (1 mark), but profit has been calculated rather than margin of safety.
1/4 marks awarded

3 A UK company exports luxury cars to an emerging market. The following table shows the economic data for this market for the last 2 years.

Economic indicator	GDP growth	% of population unemployed	Average salary in $
This year	8%	5%	$40,000
Last year	5%	8%	$35,000

Analyse how the export of luxury cars would be affected by the economic situation outlined in the table. (9 marks)

Analyse questions require you to develop a line of argument. You should aim to write at least two sentences that provide a well-developed chain of argument with no missing links. You should write in **context** by **applying** your argument to the type of business featured in the question.

Student A answer

The economic indicators are all favourable for the UK exporter. Luxury cars have positive income elasticity. This means that sales should rise with increased wealth. The 3% increase in GDP has produced a 3% fall in unemployment and a 14% rise in average salary. This may result in an increase in sales as more consumers could afford to purchase a luxury car. As a result the UK company should see this market as a great opportunity to sell more cars and increase its market share.

This is a very good response. It makes effective use of theory by identifying the importance of income elasticity on demand for luxury cars. There is a well-developed line of argument and effective use of application, through correct interpretation of the data.
9/9 marks awarded

Student B answer

GDP has grown from 5% to 8%. This will be good for export sales because there is more wealth in the country. Also the average salary has increased but unemployment has gone up. This means that only people who are working can afford to buy cars.

This answer shows limited understanding and analysis. It recognises that GDP and average salaries have increased, but incorrectly interprets the unemployment figures. The development of the points is only limited.
3/9 marks awarded

90 AQA A-level Business

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.

9781510471993.indd 4 19/11/19 6:38 AM

About this book

This Student Guide has been written with one thing in mind: to provide you with the ideal resource for your revision of the second year of the AQA Business A-level. The topics covered in this guide build upon the knowledge gained during the first year of the course.

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 the second year of the AQA Business A-level is analysing the strategic position of a business, choosing strategic direction, assessing strategic methods and managing strategic change. The study of strategic decision making builds on the study of decision making in the functional areas in the first year of the AQA Business A-level.

Central to this specification are the following themes:

- The impact of technology on strategic decision making.
- The influences of corporate social responsibility, ethical and environmental issues on strategic decisions.
- The difficulties in forecasting trends.
- The importance of assessing feasibility and risk when making strategic decisions.
- The impact on stakeholders of strategic decisions and their response to such decisions.

The focus of Student Guide 2 is the following:

- analysing the strategic position of a business
- choosing strategic direction
- strategic methods: how to pursue strategies
- managing strategic change

Content Guidance

The Content Guidance section offers concise coverage combining an overview of key terms and concepts with identification of opportunities for you to illustrate higher-level skills of analysis and evaluation. Read through the topic area before attempting a question from the Questions & Answers section.

Questions & Answers

The Questions & Answers section gives examples of the various types of question that you are likely to face: multiple choice, short-answer questions, data response, a case study and essay questions. The multiple-choice and short-answer questions focus on the broad content of this book and the data-response questions focus on specific aspects of content.

In order to develop skills, knowledge and understanding in business, students need to acquire competence in quantitative skills. These include the following:

- Calculate, use and understand ratios, averages and fractions.
- Calculate, use and understand percentages and percentage changes.

9781510471993.indd 5 19/11/19 6:38 AM

- Construct and interpret a range of standard graphical forms.
- Interpret index numbers.
- Calculate cost, revenue, profit and break-even.
- Calculate investment appraisal outcomes and interpret results.
- Interpret values of price and income elasticity of demand.
- Use and interpret quantitative and non-quantitative information in order to make decisions.
- Interpret, apply and analyse information in written, graphical and numerical forms.

A minimum of 10% of the overall marks in the A-level exams will be allocated to questions that assess a range of these quantitative skills. The Questions & Answers section contains examples of typical questions that enable students to practise these skills.

A common problem for students and teachers is the lack of resources, and in particular exam-style questions that cover individual areas of study. The questions in this guide are tailored so that you can apply your learning while the topic is still fresh in your mind, either during the course itself or when you have revised a topic in preparation for the examination. Along with the sample answers, this should give you a sound basis for sitting your exams in business.

Content Guidance

Analysing the strategic position of a business

Mission, corporate objectives and strategy

Influences on the mission of a business

A **mission statement** is an attempt by a business to put its **aims** into words that will motivate its employees to work towards achieving those aims. It should give employees a sense of direction and ensure that all functional areas of the business are working together in order to achieve the same goal.

Influences on the mission of a business can include:

- Purpose — the reason why the business exists. This could be what the founders aimed to achieve when they started the business. For example, Mark Zuckerberg, founder of Facebook, wanted to 'make the world more open and connected'.
- Values — what the company believes in. This is often linked to business ethics and how the business treats its various stakeholders such as employees, customers and suppliers.
- Standards and behaviour — how employees are expected to behave. This is linked to the culture of the business. It is set by the senior management regarding what they require from employees in terms of working hours, dress code and interaction with other workers.
- Strategy — the medium- to long-term plans the business needs in order to achieve its objectives.

Mission statement An attempt to put the corporate aims of a business into words that inspire.

Aims Generalised statements of where the business is heading, from which specific objectives can be set.

Knowledge check 1

Write down three typical business aims.

Internal and external influences on corporate objectives and decisions

An **objective** is a goal or target that a business wishes to achieve. It should be SMART. For example: 'To achieve a 5% increase in market share of the computer game market by 2025.'

Internal influences include:

- The ambitions of the chief executive — this is often linked to the personality and leadership style of the chief executive. Successful leaders will often set challenging objectives and inspire their employees to achieve them.
- The financial position of the business — the profitability and cash flow position of a business are important factors when deciding upon objectives. For example, a profitable business will be in a strong position to afford the investment required in order to achieve ambitious objectives.
- Human resources in terms of the quality and ability of senior staff — a business will need highly skilled and experienced managers in order to successfully carry out the strategy required to achieve objectives.

Objectives The goals a business sets that need to be achieved to keep the business on track to achieve its aims.

Knowledge check 2

What does the acronym SMART stand for?

9781510471993.indd 7 19/11/19 6:38 AM

External influences include:

- Competition — how competitive the market is in which the business is operating. If a business is competing against strong rivals, it may need to set less ambitious objectives.
- Changes in consumer tastes — if the business's product/service loses popularity, the business will need to set different objectives, such as developing new products.
- The economic environment — if the economy becomes stronger, consumers will be more confident and increase their spending. This could enable a business to set more ambitious objectives.
- Changes in legislation — this could make achieving objectives more difficult. For example, if the government raised the minimum wage, the increase in costs might make it more difficult for a business to achieve profit objectives.
- Pressure from shareholders — does the business adopt a 'short-termist' approach? In this case the business may have to set an objective of maximising its profits in order to provide shareholders with higher dividend payments.
- Type of business ownership — private or public limited company, non-profit organisation, public or private sector? Public limited companies will set objectives linked to ensuring that shareholders are satisfied, whereas a non-profit organisation may set objectives linked to social values.

Exam tip

Always consider both internal and external influences when answering questions on business objectives. Try to identify what you think are the most important influences on the particular business featured in the case study.

The distinction between strategy and tactics

Once a business has decided upon its objectives, it then has to formulate a **strategy**, as well as the **tactics** required. Strategic decisions tend to be medium or long term. For example, in order to achieve the objective of increasing its market share to 20% by 2025, a business may decide upon a strategy of targeting a new market segment. The tactical decisions will be short term, for example using an advertising campaign aimed at this market segment.

Strategy The medium- to long-term plan that the business needs in order to achieve its objectives.

Tactics Responses to short-term opportunities or threats.

The links between mission, corporate objectives and strategy

Figure 1 shows the logic chain from mission to strategy.

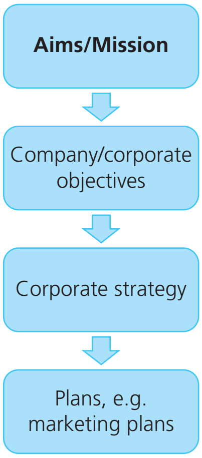


Figure 1 The chain from mission to strategy

Knowledge check 3

A business has decided upon an objective of improving its productivity. Identify one strategic and one tactical decision it could make to achieve this objective.

The impact of strategic decision making on functional decision making

Strategic decisions influence each functional area of the business, specifically marketing, finance, human resources and operations.

Each functional area will be set a specific objective. The achievement of this objective contributes to achieving the corporate objective set by the business. In order to achieve its objective, each functional area has to decide upon the best strategy and tactics.

It is important that each functional area coordinates with the others in order to achieve its objective. For example, if a business has decided upon a strategy of launching its products into an overseas market:

- The marketing department would be responsible for activities such as market research, sales forecasting and the marketing campaign.
- The operations department would need to organise the additional production required as well as the storage and distribution.
- The human resources department would need to recruit staff with specialist knowledge of the overseas market, as well as providing training for existing staff.
- The finance department would need to provide the necessary funds and set a budget for each of the other functions.

The value of SWOT analysis

SWOT analysis is a decision-making tool used by senior managers to gain an insight into the current and potential position of a business. It gives them the evidence to help decide future strategy.

It is important that businesses regularly conduct SWOT analyses as a basis for making strategic decisions. This requires regular market research to assess the external environment as well as constant reviews of internal performance.

Financial ratio analysis

Balance sheets

The function of accounting is to provide information to various stakeholder groups regarding how well the business is performing financially. Key stakeholders who would be interested in the financial performance include shareholders, employees and suppliers. The key information they require is obtained from the **balance sheet** and the **income statement**. Table 1 shows a simplified balance sheet while Table 2 is an example of a fuller version and Table 3 is a complete balance sheet.

Balance sheet Shows an organisation's assets and liabilities at a precise point in time. The balance sheet shows what the business owns and what it owes at a certain point in time.

Income statement Records the amount of profit (or loss) that a business has made over a previous trading period.

Exam tip

When answering questions on this topic, always consider the external environment that the business is facing in the case study, for example how competitive is the market or what is the state of the economy? Ask yourself whether the objectives and strategy are appropriate in order to achieve the aims expressed in the mission statement.

Knowledge check 4

Name one functional objective for each of the following areas:

- finance
- marketing
- operations
- human resources

SWOT

S = Strengths;
W = Weaknesses;
O = Opportunities;
T = Threats. Strengths and weaknesses are internal. Opportunities and threats are external.

Knowledge check 5

Think of one advantage and one disadvantage resulting from the use of SWOT analysis.

9781510471993.indd 9 19/11/19 6:38 AM

Table 1 A simplified balance sheet

Spark plc: Simplified vertical balance sheet	
	£
Long-term (non-current) assets	300,000
Short-term (current) assets	100,000
Total assets	400,000
Balancing with: Total capital	400,000

A business owns assets. These can be either non-current or current. Non-current assets last for more than 12 months. They include items such as property, vehicles and machinery. Current assets last for less than 12 months. They include cash, inventories and receivables.

A business will have current liabilities. These are items that have to be paid within 12 months. They include items such as a bank overdraft and payables. The liquidity of a business can be calculated by subtracting current liabilities from current assets. This figure is known as **working capital**.

The business can also calculate the value of its **assets employed** by adding together non-current assets and working capital. Assets employed represents what the business is worth at a particular point in time. To pay for its assets employed, a business needs capital. Capital represents what the business owes.

Table 2 A fuller version of a balance sheet

Spark plc: Fuller version of the firm's balance sheet	
	£
Property	180,000
Machinery and vehicles	120,000
Inventories	80,000
Receivables and cash	60,000
Current liabilities	(40,000)
Assets employed	400,000
Total capital	400,000

Capital consists of non-current liabilities. These are long-term loans that are paid back over a period greater than 12 months. Subtracting non-current liabilities (loan capital) from assets employed, the business can calculate the value of its net assets. Net assets are financed by both:

- share capital — funds raised from selling shares
- reserves — reinvested profits

Share capital and reserves are known as 'total equity'.

The **capital employed** figure represents how the business has financed its assets employed. In order to balance, assets employed must always be equal to capital employed.

Knowledge check 6

Think of one reason why each of the following stakeholders would be interested in the financial performance of a business:

- shareholders
- employees
- suppliers

Exam tip

Remember that in a balance sheet, figures for liabilities are in brackets because they represent negative figures.

Working capital = current assets – current liabilities

Assets employed = non-current assets + working capital

Capital employed = total equity + non-current liabilities

Table 3 A complete version of a balance sheet

Spark plc: Balance sheet for 31 December last year		
	£	£
Property	180,000	
Machinery and vehicles	120,000	300,000
Inventories	80,000	
Receivables and cash	60,000	
Current liabilities	(40,000)	
Total assets less current liabilities		400,000
Loan capital		(250,000)
Net assets		150,000
Share capital	50,000	
Reserves	100,000	
Total equity		150,000

Income statements

The income statement records all the business's revenue and costs within a given trading period. While a balance sheet can be drawn up at a particular point in time, the income statement records what has happened during a previous period of time, usually the past 6 or 12 months.

Figure 2 sets out the basic structure of an income statement for a public limited company.

		£m
	Revenue	26.0
less	Cost of sales	(17.0)
gives	Gross profit	9.0
less	Overheads	(4.0)
gives	Operating profit	5.0
less	Financing costs	1.5*
gives	Profit before taxation	6.5
less	Tax	(2.0)
gives	Profit after taxation for the year	4.5

*In this case more interest was earned than paid out

Figure 2 The basic structure of an income statement

The income statement consists of four main stages:

1. **Gross profit** — calculated by subtracting cost of sales from revenue.
2. **Operating profit** — calculated by subtracting overheads from gross profit.
3. **Profit before tax** — calculated by subtracting financing costs from operating profit.
4. **Profit after tax** — calculated by subtracting tax from profit before tax.

Knowledge check 7

What is the difference between non-current and current assets?

Exam tip

Remember that negative figures in an income statement are always in brackets.

Knowledge check 8

What does 'cost of sales' represent?

Knowledge check 9

What are 'overheads' and what are 'financing costs'?

Gross profit = sales revenue – cost of sales

Operating profit = gross profit – overheads

Profit before tax = operating profit – financing costs

Profit after tax = profit before tax – tax

9781510471993.indd 11 19/11/19 6:38 AM

Profit after tax is also known as 'earnings'. Earnings can be either distributed or retained. The directors of the business have to decide what proportion of the earnings should be given to the shareholders as **dividends**. It is important to give shareholders dividend payments as they are the owners of the business and have the power to sack the directors if they are not happy with the business's performance. However, the directors also need to retain some of the earnings as these funds are needed for future investment. Without sufficient investment, the business's performance may suffer in the long term.

Dividends Represent the share of the profit after tax given to shareholders.

Knowledge check 10

Think of three items a business could invest in that may lead to improved long-term performance.

Financial ratio analysis

The function of accounting is to provide stakeholders with financial information about how the business has performed over a certain period of time. The technique used to provide this information is known as **ratio analysis**.

Ratio analysis An examination of accounting data by relating one figure to another.

The main types of ratios are:

- **Profitability ratios** These measure the relationship between gross/net profit and revenue, assets and capital employed. Return on capital employed is an important profitability ratio.
- **Liquidity ratios** These investigate the short-term financial stability of a firm by examining whether there are sufficient short-term assets to meet the short-term liabilities (debts). The current ratio is an important liquidity ratio.
- **Gearing** This examines the extent to which the business is dependent upon borrowed money; it is concerned with the long-term financial position of the company.
- **Efficiency ratios** These measure how efficiently an organisation uses its resources and controls credit. Payables days, receivables days and inventory turnover are important efficiency ratios (see below).

Profitability

Profit margins compare the amount of profit made in relation to sales revenue. The two key profit margins are gross profit margin and operating profit margin.

$$\text{return on capital employed (ROCE)} = \frac{\text{operating profit}}{\text{capital employed}} \times 100$$

This ratio measures the efficiency with which the firm generates profit from the funds invested in the business.

The higher the value of ROCE, the better, as a high and rising figure indicates that resources are being used efficiently. High ROCE will please shareholders as they should benefit from improved profitability through increased dividends and a rising share price. ROCE needs to be compared with:

- previous years
- competitors
- interest rates offered by banks

Exam tip

In an exam, you may be given a balance sheet and income statement as part of a case study or data-response question. Often there will be additional information which may explain some of the figures. Remember to use this information, as well as the actual figures, when answering questions on the financial performance of the business. For example, if there is a big difference between gross and operating profit, there may be information in the case study about why the overheads have increased.

Liquidity

Liquidity is concerned with working capital and how it is being managed. Too little working capital indicates that the business may struggle to pay all its debts and could face a cash-flow problem. Too much working capital indicates that the business may

Knowledge check 11

How do you calculate operating profit and capital employed?

not be making the most efficient use of its financial resources. Liquidity is usually expressed as a ratio, such as 2 : 1.

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

Worked example

Bannam Ltd has current assets of £30,000 and current liabilities of £10,000.

current ratio = current assets : current liabilities

= £30,000 : £10,000

= 3 : 1

current ratio = 3 : 1

A ratio of 3 : 1, as in the worked example, indicates that a business has £3 of current assets for every £1 of current liabilities.

Accountants recommend that the 'ideal' current ratio should be between 1.5 : 1 and 2 : 1. This means that the business can comfortably pay its short-term debts, but does not have too much tied up in unproductive resources.

Gearing

Gearing measures the financial stability of a business. It shows how reliant the business is upon borrowed money.

$$\text{gearing} = \frac{\text{non-current liabilities}}{\text{capital employed}} \times 100$$

If a business has a gearing ratio of above 50% it is said to be highly geared. This means that more than 50% of its capital employed is provided by loans. This means that the business has to pay interest on its loans before it can pay dividends and/or reinvest profits. High gearing indicates high risk. Lower geared businesses are considered lower risk and may be able to negotiate loans more easily.

Efficiency

These ratios measure how well a business manages its resources.

Inventory turnover measures the number of times in a year a business sells and replaces its inventory.

$$\text{inventory turnover} = \frac{\text{cost of sales}}{\text{inventories}}$$

It is expressed as number of times per year.

Inventory turnover is a good indicator of liquidity as it shows how quickly the business is selling its products. This ratio is highly dependent upon the type of business in terms of the product sold and inventory. For example, a business that sells products that are perishable, such as a florist, would expect to sell and replace its inventory on a daily basis. This means that it would have a high inventory turnover. In contrast, a

Knowledge check 12

State one current asset and one current liability.

Exam tip

The current ratio can vary according to the type of business. For example, businesses that hold inventory that can be sold off quickly, such as supermarkets, can operate with much lower current ratios than manufacturing firms, which may struggle to sell their inventory quickly. In an exam, always consider the type of business featured in the question when interpreting its current ratio.

Knowledge check 13

Can you think of an advantage of high gearing for a business?

9781510471993.indd 13 19/11/19 6:38 AM

car dealer may sell only a few cars a week and could have a car in its showroom for several months, resulting in a lower inventory turnover.

Receivables days shows how long, on average, it takes for a business to receive payment from its customers.

$$\text{receivables days} = \frac{\text{receivables}}{\text{revenue}} \times 365$$

It is usually expressed in days.

Receivables days is often linked to how much trade credit a business gives its customers. Consequently, it is a useful measure of liquidity. The shorter the receivables days figure, the quicker a business is receiving payment from its customers.

Payables days shows how long, on average, a business takes to pay its suppliers.

$$\text{payables days} = \frac{\text{payables}}{\text{cost of sales}} \times 365$$

It is usually expressed in days.

The difference between receivables and payables days is a good indicator of how efficiently a business is managing its working capital. Receivables days should always be shorter than payables days. A business must be careful when deciding how long it will take before paying its suppliers. While longer payables days is good for liquidity, it may damage the relationship with suppliers if they have to wait a long time before getting paid.

The value of financial ratios when assessing performance

Analysing ratios over time is useful because it enables stakeholders to compare different years and identify whether financial performance has improved or worsened.

Analysing ratios in comparison with similar businesses is also valuable. It enables the business to identify its strengths and weaknesses compared with its rivals. It highlights the areas where the business has to improve and enables managers to identify the reasons for poor performance, in order to develop the strategies needed.

Table 4 Ratio trends

Ratio trend over time	Example	Implications
Falling current ratio	3:1 two years ago; 2:1 last year; 1:1 this year	Worryingly sharp fall in liquidity; needs to be tackled immediately, e.g. through a rights issue
Rising receivables days	42 two years ago; 48 last year; 59 this year	Customers are taking significantly longer to pay, which will drain the business's cash holdings and therefore hit liquidity
Falling gearing	52% two years ago; 48% last year; 40% this year	Gearing has dropped from being a bit too high/risky to being normal/safer
Falling ROCE	34% two years ago; 23% last year; 14% this year	Dramatic fall in profitability, perhaps because competitors have caught up; the business has lost its competitive advantage

However, most published accounts provide data covering only the most recent two years. Trends over at least three years should be considered.

Knowledge check 14

Identify one way a car dealer could improve its inventory turnover.

Knowledge check 15

Identify and explain one way a business could improve its receivables days.

Knowledge check 16

What problems might result for a business from an increase in its payables days?

Exam tip

In an exam, you may be given financial data for two consecutive years. It is important that you calculate relevant ratios for both years and make a comparison. Alternatively, you may be given the ratio figures for a competitor. In this case it is important that you compare your ratio calculations with these figures. Remember to always show your workings when completing ratio calculations.

Questions & Answers

A-level Business will consist of three exam papers.

Paper 1 consists of four compulsory sections:

- Section A: 15 multiple-choice questions (15 marks in total)
- Section B: short-answer questions (35 marks in total)
- Section C: essay question (choice of one from two) (25 marks)
- Section D: essay question (choice of one from two) (25 marks)

Paper 2 consists of:

- three compulsory data-response questions worth approximately 33 marks each and made up of three- or four-part questions (100 marks in total)

Paper 3 consists of:

- an extended case study including appendices containing data. There are six questions of increasing levels of difficulty (100 marks in total)

This section of the guide contains the various types of exam questions that you are likely to be faced with. The questions in the exam can cover anything in the specification. The questions in this guide are based upon only topics 7–10: 'Analysing the strategic position of a business', 'Choosing strategic direction', 'Strategic methods: how to pursue strategies' and 'Managing strategic change'.

The answers for the multiple-choice questions are supplied together with comments on why these answers are correct. For the short-answer, data-response, case study and essay questions you will find sample answers with comments. The 'Student A' sample answers are good responses and the 'Student B' sample answers are weak responses — the aim being to illustrate examples of good practice and common errors made by students in the hope that you will, with practice, be able to develop your own skills.

Questions

The multiple-choice and short-answer questions provided in this section of the guide give a broad coverage of the content of this book and it would make sense to use these towards the end of your revision period in order to check your knowledge. The data-response questions, however, could be used as you complete an area of content. The Paper 3 questions are based upon different content sections in this book, but would be best answered towards the end of your revision.

It is important to show all your workings when answering calculation questions. This means you may get some marks even if your final calculation is wrong. Also, be selective when using data as some questions may contain data that is not relevant to what is being asked.

When answering essay questions you should write your answer in continuous prose and use examples to illustrate your answer. A good essay structure is essential. Aim to write an introduction, then two paragraphs that agree with the point in the question, followed by two paragraphs that disagree. Each paragraph should contain a separate argument that is well developed and uses business examples to illustrate the argument. Complete your essay by writing a conclusion that directly answers the question and is supported by your previous arguments.

It is important to spend time carefully reading the case study material in Paper 3 and thinking about the type of business, the product/service it sells and the current situation it faces. This will enable you to build arguments and make judgements that are rooted in the context of the business. Paper 3 has a number of questions that require you to show the skill of evaluation. These often ask you to take a view on the relative strength of an argument for and against a business proposition. These questions require a supported judgement.

Sample answers

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 at developing your own responses will help you hone your skills. Once you have written your answer you can then look at the sample responses and identify the strengths and weaknesses of your own work. Using the question and answer section in this way should result in the quality of your answers improving.

Assessment

A-level papers do not just test how well you know the content of the subject. There is a clear set of skills that will be tested and it is essential that you are aware of the requirements 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.
- **Application (AO2)** This focuses on your ability to relate your knowledge and understanding of the subject content to a particular situation or scenario (such as that in a particular case study).
- **Analysis (AO3)** This is the ability to develop an extended line of argument related to a particular question.
- **Evaluation (AO4)** This is making a judgement by weighing up the evidence provided.

Not all questions will test all the skills set out above so it is important that you are able to recognise which skills are being tested. The basis of all questions will be some element of knowledge, but the clue to the other skills required is in the command words of a question. Some commonly used ones are listed below.

Application

The following command words require you to apply your answer to the context of the question or case:

- Explain…
- Calculate…

9781510471993.indd 82 19/11/19 6:38 AM

Analysis

The following command words require you to develop a relevant argument:

- Analyse…
- Explain why/how…
- Examine…

Remember that your answer has to be in context and will also need application.

Evaluation

The following command words require you to make a judgement:

- Evaluate…
- Discuss…
- To what extent…
- Justify…

Remember that in an answer that requires evaluation, your arguments must be developed (analysis) and they must also be in context (application).

The majority of students who have studied hard but who underperform do not do so because of a lack of knowledge but because of a lack of good examination technique. If you understand the skills that are being tested, recognise how to develop them and are prepared to practise them, you should do well in the exam.

Paper 1 Section A Multiple-choice questions

Question 1

Which of the following is not an internal influence on a corporate objective?

A The financial position of the business

B Employees

C Ambitions of the chief executive

D Shareholders

Question 2

A business invests in a new piece of machinery that costs £20 million. It is expected to bring in additional revenue of £5 million each year but incur annual costs of £1.75 million. The payback period would be:

A 4 years

B 6 years and 1.8 months

C 11 years and 4 months

D 8 years and 8.8 months

This question is testing quantitative skills.

Question 3

According to Porter, a specialist producer of expensive technology products should adopt which of the following strategies?

A Low cost

B Differentiation

C Focused differentiation

D Focused low cost

Question 4

Which of the following is not an example of external growth?

A Merger

B Joint venture

C Opening a new factory

D Takeover

Question 5

An activity in a network diagram has a duration of 5 days. Its EST is 2 days and LFT is 10 days. Its total float is:

A 3 days

B 5 days

C 7 days

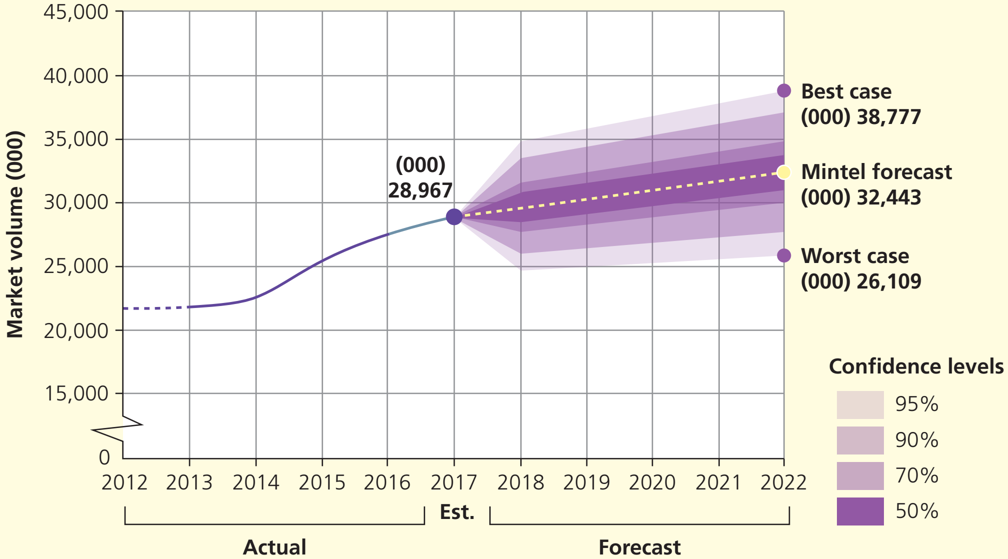
D 0 days

This question is testing quantitative skills.

Paper 2 Data-response questions

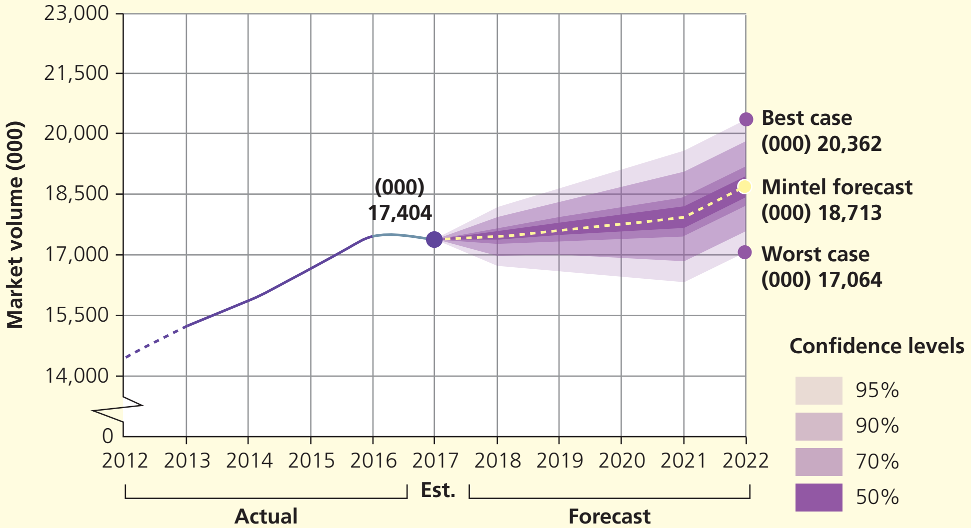
Thomas Cook Group plc

Thomas Cook was one of the UK's biggest providers of package holidays. In the years leading up to 2019 it had lost sales and market share as a result of the increased popularity among consumers for booking their holidays independently.



Sources: Mintel report,'Package vs independent holidays, UK', April 2018

Figure 1 Market volume forecast of overseas independent holidays 2012–22



Sources: Mintel report,'Package vs independent holidays, UK', April 2018

Figure 2 Market volume forecast of overseas package holidays 2012–22

9781510471993.indd 94 19/11/19 6:38 AM

Table 1 Thomas Cook enters the Chinese travel market

Thomas Cook China	
Joint venture with Fosun (Chinese investment company based in Shanghai)	Package holidays aimed at Chinese consumers
Thomas Cook hotel resort and theme park	
Joint venture with Sunwing (Chinese travel operator based in Hong Kong)	Target market: middle-class Chinese families
Chinese economic forecasts	
GDP growth	6.3
Average income growth (2019–2024)	+33%
Population growth (2019–2029)	+1.4%

Table 2 Extracts from Thomas Cook Group plc annual report 2018

	2018 £m	**2017 £m**
Non-current assets	2,096	2,087
Current assets	1,793	1,576
Current liabilities	(356)	(152)
Non-current liabilities	(659)	(653)
Net assets	2,874	2,858
Equity	2,874	2,858
Revenue	9,584	9,006
Operating profit	97	227

(a) Using the information in Figures 1 and 2, calculate the market share of package holidays in the overseas holiday market in 2017. (3 marks)

> **Calculate** questions simply require you to perform a calculation. They are testing your **quantitative skills**. It is important to show your working as you may get marks for it even if your final answer is incorrect.

(b) According to Bartlett and Ghoshal, the directors of Thomas Cook decided to adopt a multidomestic strategy for the Chinese travel market. Explain how the data in Table 1 support this strategy. (9 marks)

> This question requires you to show a depth and range of knowledge, such as Bartlett and Ghoshal's theory, as well as issues related to entering international markets. Your **analysis** needs to be well developed and applied effectively to the **context**, namely the Chinese travel market. **Two** arguments that are well developed and supported by the context would be sufficient.

(c) Do you think that the shareholders of Thomas Cook Group plc would have been pleased with the company's performance? (20 marks)

> Questions that begin with the words **Do you think** expect you to show the skill of **evaluation**. You should consider arguments both for and against whether the shareholders would be pleased and then weigh up one against the other in a conclusion. This question is also testing your **quantitative skills** because it requires you to perform some relevant ratio calculations.

9781510471993.indd 95 19/11/19 6:38 AM