

Contents

Getting the most from this book	4
About this book	5

Content Guidance

Spectrum of competition	6
Degree of competition in the market (market structures)	7
Market research	9
Marketing mix	13
Elasticity of demand	22
Product life cycle	25
Market planning and strategy	28
E-business/e-commerce	31
Sources of finance	35
Break-even analysis	38
Cash flow	44
Cash-flow forecast	46
Budgeting	51
Financial statements	54

Questions & Answers

About the assessment	64
Assessment objectives	66
Holistic marking	68
Case study 1: Hotels in Belfast	69
Case study 2: Hair Professional Salon	76
Knowledge check answers	84
Index	86

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.

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.

Questions & answers

Student A answer

A market segment refers to a smaller portion of the entire market in which a product/service is sold. In this case, the hotel market can be subdivided into segments based on the hotel property's star rating. For example, there is one 5* hotel in Belfast City, which provides 500 rooms out of a total of 9,000 available, which represents the luxury sector of the market.

Student B answer

A segment is a portion of the market. The hotel market can be subdivided into segments based on the hotel property's star rating.

Question

Analyse two reasons why the average daily room rate (price) might have changed in the hotel sector. [8 marks]

The 'analyse' command word means that you need to provide possible reasons for changes in the average daily room rate (price) in the hotel sector. You should create an extract-based answer summarising the reasons for the issues as stated in the stimulus material. You can use the extract to provide application and set the answer in context of both stimulus and business theories.

Student A answer

The average daily room rate (price) might have changed in the hotel sector for the following reasons:

- **Increasing demand for rooms:** the demand for Belfast hotel rooms has increased due to the positive sterling/Euro exchange rate and attractions such as the Game of Thrones tours, the Titanic Quarter and Royal Portrush, which hosted the Open Golf Championship. As demand for hotel rooms has increased the hotels can increase their prices, as supply is limited to 9,000 rooms. Furthermore, hotel operating costs on average in the sector have increased by 25% as stated, hence this price increase has been passed on to consumers in the form of a higher daily room rate. The price increases are important in order to ensure that each hotel is profitable.
- **Consumer tastes:** it is possible that consumers prefer to stay in hotel properties located in Belfast City for reasons of convenience, two airports within 16 km of Belfast and access to other facilities (e.g. transport links to Game of Thrones sites, the Giant's Causeway and Royal Portrush for golfing and other major events). Therefore, as a result, only 60 five-star rooms are available at any one time – fewer hotel rooms are available for use at key points in the year, which in turn drives up prices/room rates significantly as supply is exhausted. Consumers are therefore willing to pay the higher room rate in order to meet their needs while staying at the hotel property chosen – even though an additional 1,170 rooms have now become available.

Comments

(AO1) The student gives a good definition of the term for 2 marks.
(AO2) The student then provides a detailed application of the term using the stimulus material from the case study. This can be awarded 2 marks.
Student A shows an excellent knowledge of the business term and application of knowledge to stimulus to achieve full marks.
4/4 marks awarded

(AO1) The student attempts to provide a definition of the business term. The definition provided is too brief as is the extent of application to the stimulus material.
Student B's response shows a lack of preparation and understanding of the skills needed to answer the question.
2/4 marks awarded

(AO1) The student correctly identified two reasons and gives an explanation of these for 2 marks.
(AO2) The student demonstrates application using examples and data from the case study and relates these to the explanation for 2 marks.
(AO3) The student uses good context to analyse the reasons for the change in the average daily room rate.
Student A provides a detailed explanation of the issues, coupled with a good standard of application and detailed reasons for the change of average daily room rate from the stimulus material in order to achieve full marks.
8/8 marks awarded

70 CCEA AS Unit 2 Business Studies

About this book

This book (Student Guide 2) has been written with one objective in mind: to provide you with the ideal resource for your revision of the CCEA AS Unit 2 Business Studies A-level.

In your study of the subject you will examine business in a variety of contexts, including small and large, national and international, service and manufacturing. This book covers Unit AS2: Growing the business.

The **Content Guidance** section offers concise coverage of Unit 2, combining an overview of key terms and concepts with identification of opportunities for you to demonstrate higher-level skills of analysis and evaluation.

The **Questions & Answers** section provides examples of stimulus material and the various types of questions that you are likely to face: both short-answer and data-response questions. The questions cover the CCEA AS A-level Business specification. There are also explanations of command words, which can be applied to any question with the same word. The answers are also explained in detail, including the proposed mark awarded.

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 knowledge while the topic is still fresh in your mind, throughout your course and when you have revised a topic in preparation for the examinations. Along with the sample answers this should provide you with a sound basis for sitting your Business Studies exam.

Pre-existing knowledge

AS and A-level Business presumes you have no specific previous experience of the subject and its key terms. The good news is that everyone starts at the very beginning regarding key terms and knowledge. Business is a subject that requires you to apply key terms to real businesses, so an interest in current news affairs relating to businesses, for example Apple, Google and Kentucky Fried Chicken, will help you to put theory into context. It is the most rewarding part of the subject, and allows you ultimately to score highly in the exam.

Content Guidance

■ Spectrum of competition

Competition

Competition is defined as the rivalry that exists between businesses in a market as they seek to gain a share of the market and influence customers to buy their product/service.

Influence of competition on a business

Competition influences businesses in the following ways:

- **Innovation:** a greater number of competitors in an industry forces businesses to innovate in respect of products, design and delivery, and/or business processes in order to compete effectively.
- **Branding:** businesses need to build and maintain strong brand images in order to grow market share and revenues, and achieve business objectives.
- **Differentiation:** businesses must create and maintain unique selling points that differentiate their products/services from rivals in order to maintain market share.
- **Opportunities:** market opportunities exist in a competitive market due to a perceived gap in the market. Therefore businesses can create a niche market for their products and take advantage of opportunities to increase sales revenues.
- **Customer needs:** businesses must focus on meeting the needs of customers in order to increase market share and secure growth.

Market share, market growth and market size

- Market share represents the proportion of sales a business has achieved, expressed as a percentage of the total sales in the market during a specific time period.
- Market growth represents the increase in market size (measured in terms of quantity and/or revenues) for a product/service over time.
- Market size represents the total value (£) or quantity (units) of products sold by companies in the market.

Summary

After studying this topic you should be able to:

- explain the concept of competition and how competition can influence a business organisation
- explain the terms market share, market growth and market size
- analyse the issues related to market share, market growth and market size relative to a business

Knowledge check 1

Explain two ways in which a business such as Vodafone plc may be influenced by competition within an industry.

Exam tip

The specification requires an analysis of the terms market share, market growth and market size. You must ensure that you understand the difference between each term.

Exam tip

Market growth is calculated as the difference between the current size of the market compared with the original market size, and expressed as a percentage of the original market size.

Exam tip

Bring a calculator with you to the exam — you might need it to work various calculations such as market share, market growth, ratios and other calculations requested by the examiner.

Degree of competition in the market (market structures)

Market structures

There are four categories of **market structure**, as seen in Figure 1.

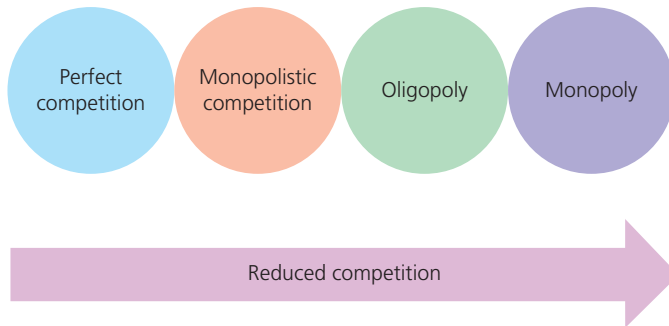


Figure 1 The four categories of market structure

Perfect competition

Under this scenario, there are many market participants, and products/services provided tend to be homogeneous in nature. The level of rivalry between businesses in the industry is intense and participants tend to be 'price-takers' (i.e. set a price which customers are willing to pay for the products/services, e.g. the sale of wheat).

Monopolistic competition

Under this scenario, there are many smaller businesses each attaining smaller amounts of market share and providing customers with products that are differentiated, e.g. breakfast cereal.

Oligopoly

Under this scenario, a few large firms each with a large market share dominate the market. The businesses tend to compete on the basis of product branding as opposed to price only, e.g. a car manufacturer.

Monopoly

Under this scenario, one supplier who exerts control over output levels and pricing dominates the market. Customers have little influence. Such markets tend to be subject to government regulation, e.g. Northern Ireland Water, which is the only supplier of water/sewage services in Northern Ireland and is a government-owned company.

Exam tip

A clear understanding of the different types of market structure will help you understand potential exam questions on the topic.

Market structure

The characteristics and organisation of a market.

Factors influencing the degree of competition

Barriers to entry

These represent the impediments facing a business as it attempts to participate in a market, for example, substantial levels of **capital investment** are required or there is limited access to scarce resources. Low barriers to entry dominate where perfect competition exists in a market.

Product differentiation

Product differentiation represents the extent to which one company's product/service differs from those provided by other companies in the market. In a competitive market, there is little product differentiation hence products/services are homogenous in nature. On the other hand, if the product is unique there are likely to be low levels of competition in the industry.

Number of sellers

A large number of **sellers** is present where perfect competition exists in the market, therefore the product/service is readily available to consumers. In oligopoly/monopolistic market structures, there are fewer sellers so companies can charge higher prices.

Imperfect knowledge

In circumstances of perfect competition, customers have detailed knowledge about products/services since competition is intense and alternatives are available. In oligopolistic/monopolistic market structures, customers tend to have limited knowledge. Businesses therefore have significant pricing power and influence consumer behaviour to a greater extent.

Number of buyers

A large number of **buyers** is present where perfect competition exists in the market, therefore the product/service is freely available to consumers with low levels of product differentiation.

Capital investment

Funding and non-financial resources required to support a new/existing project aimed at generating profits for a business.

Sellers Businesses participating in a given market in order to sell their products or services.

Buyers Customers participating in a given market who are willing to acquire products or services.

Knowledge check 2

Explain three factors that might influence the degree of competition within the UK airline industry.

Summary

After studying this topic you should be able to:

- explain the different types of market structures
- analyse factors determining the degree of competition in a market

Questions & Answers

About the assessment

CCEA A-level Business Studies consists of four examination papers. The four papers are external written exams and all questions are compulsory.

Detailed below is a synopsis regarding total marks, time constraints and breakdown of marks for each paper.

The Content Guidance and Questions & Answers in this Student Guide are for examination paper AS2.

Paper	Level	Code	Marks	Time (min)	Details of paper
Paper 1	AS1	SBU11	80	90	Introduction to business
Paper 2	AS2	SBU21	80	90	Growing the business Two compulsory structured data case studies with eight questions, four questions from each case study. The 80-mark paper is broken down into two 4-mark, two 8-mark, two 10-mark, and two 18-mark questions. Questions assessing quantitative skills (QS) are specified on the front cover of the exam paper. This paper's specifications include a large finance content and possible finance questions will be specifically targeted to cover QS requirements.

Questions

The possible question format of the SBU21 paper is as follows:

Question number	Question type	Marks
1a/2a	Explain term/Calculate from formulae using an example from case study	4 marks
1b/2b	Analyse/Interpret two factors/reasons/methods/elements/benefits	8 marks
1c/2c	Analyse/Interpret three factors/reasons/methods/elements/benefits	10 marks
1d/2d	Evaluate issues/methods/usefulness/ importance	18 marks

The questions are based on the AS level specification.

Sample answers

Sample answers are one method to assess your skills in answering a question. Prior to answering a question it is imperative that you develop your own response to it. Once completed you should mark your answer based on the holistic marking grid (see p. 68) to obtain a mark. Then look to the good sample answer for comparison and identify

the areas of strength and areas of weakness in your answer. By identifying those areas, AO1 to AO4, you will improve the quality of your answer and achieve improved marks.

Command words

The following is a list of the types of command words and questions that you will see on the AS2 examination paper. The questions are based on topics included in the AS2 unit of the specification.

Question	Command word	Question type
1a and 2a	Explain Calculate Construct	Definitions and applications of key business terms in the specification, giving examples from the case study. students must be able to interpret, apply and analyse information in written, graphical and numerical forms within the case study.
1b and 2b	Analyse Calculate Construct Interpret	Analysis of stimulus/case study. students must be able to interpret, apply and analyse information in written, graphical and numerical forms and analyse findings from the case study.
1c and 2c	Analyse Calculate Construct Examine Interpret	Analysis of stimulus/case study. students must be able to interpret, apply and analyse information in written, graphical and numerical forms and analyse findings from the case study.
1d and 2d	Evaluate	Evaluation. students must be able to interpret, apply and analyse information in written, graphical and numerical forms, consider alternative arguments and reach a final judgment.

In this guide we have provided a selection of questions and answers from the AS2 specification based on case studies, for which you will also find sample answers with examiner comments. Student A's sample answers are stronger responses while Student B's are weak responses. The ultimate aim is to show how an examiner determines their final mark based on a holistic marking approach. In this way you will be able to develop your own skills by honing in on the most common simple errors made by other students.

1 Read the following extract and answer the questions that follow.

Extract 1 Hotels in Belfast

During 2018, it was reported that approximately 9,000 hotel rooms were available for guests throughout Belfast City, across different market segments. This resulted from the completion of a number of major hotel building projects, which added 1,170 additional rooms to the hotel market. The increased demand for Belfast hotel rooms is due mainly to the positive exchange rate for Euro tourists and attractions such as the *Game of Thrones* trips, the Titanic Quarter, the Giant's Causeway and Royal Portrush's golf course, which hosted the Open Championship in 2019.

The city of Belfast has a strong heritage, with key themes emerging in each new hotel, including:

- Titanic Hotel: a new venue based on the famous Belfast-built ship, including use of the old 'drawing rooms' and artefacts.
- Grand Central Hotel: a modern version of the hotel of the same name previously located in Belfast's Royal Avenue, and which has an observatory for spectacular views across Belfast City.
- George Best Hotel: themed around the life of the Belfast-born football player George Best and sporting memorabilia.
- Bullitt Hotel: themed around the 1960s icon Steve McQueen and the 1968 action thriller *Bullitt*.
- Recently opened brand-name hotels such as the Maldron Hotel, the AC Hotel Marriott and Hampton by Hilton Belfast City Centre.

Due to the personal nature of customer bookings, each hotel is conscious of the need to be recognised and respected as a leading hotel in its individual market segment, providing hotel guests with an exemplary experience including a warm welcome and personal touch combined with the provision of high standards of personal service (e.g. portering, reception and room service), room cleanliness, hygiene, food to suit guests' tastes and pleasant surroundings.

The new investment has helped to boost the supply of rooms by 15% to a total of 9,000. Operating costs have increased by approximately 25%. To ensure survival, hotel operators have also increased the average daily room rate (price) by 25% to £81.65. The owners of each hotel have cited the successful use of market research data in planning the development of their properties, which has enabled them to respond to increasing market demand, using the property type data, themes and pricing data to best meet customer needs.

Customers can now choose from the rooms shown in Table 1.

Table 1 Room availability in Belfast

Hotel property type	Number of hotels	Number of rooms (approx.)
Five star	1	60
Four star	10	1,440
Three star	20	2,500
Other	150	5,000
Total	181	9,000

An observer commented that:

Tourism in Belfast is booming and it is brilliant to see hotel managers responding to demand levels. One manager stated that both overnight trips and expenditure had doubled over the last 10 years.

Industry experts suggest that growth in tourism will continue, forecasting a total of 5 million visitor trips, bringing close to £1bn into the local economy. However, despite this optimism, an industry expert commented that, although recent hotel building projects were principally in the three and four-star markets, this now created a potential gap in the market for five-star hotels and luxury hotel brands not currently located in Belfast City.

a Define the term market segment using an example from the case study.

[4 marks]

The 'define' command word means you need to give a definition of the business term in the question and this needs to be clear.

Student A answer

A market segment refers to a smaller portion of the entire market in which a product/service is sold **a**. In this case, the hotel market can be subdivided into segments based on the hotel property's star rating, e.g. there is one 5* hotel in Belfast City, which provides 60 rooms, out of a total of 9,000 available, which represents the luxury sector of the market **b**.

(A01) **a** The student gives a good definition of the term for 2 marks.

(A02) **b** The student then provides a detailed application of the term using an example from the case study. This can be awarded 2 marks.

Student A shows an excellent knowledge of the business term and application of knowledge to stimulus to achieve full marks.

4/4 marks awarded

Student B answer

A segment is a portion of the market **a**. The hotel market can be subdivided into segments based on the hotel property's star rating **b**.

(A02) **a** The student attempts to provide a definition of the business term. **b** The definition provided is too brief as is the extent of application to the stimulus material.

Student B's response shows a lack of preparation and understanding of the skills needed to answer the question.

2/4 marks awarded

- b Analyse two reasons why the average daily room rate (price) might have changed in the hotel sector.** [8 marks]

The 'analyse' command word means that you need to provide possible reasons for changes in the average daily room rate (price) in the hotel sector. You should create an extract-based answer summarising the reasons for the issues as stated in the stimulus material. You can use the extract to provide application and set the answer in context of both stimulus and business theories.

Student A answer

The average daily room rate (price) might have changed in the hotel sector for the following reasons:

- **Increasing demand for rooms:** the demand for Belfast hotel rooms has increased due to the positive sterling/Euro exchange rate and attractions such as the *Game of Thrones* tours, the Titanic Quarter and Royal Portrush, which hosted the Open Golf Championship **a**. As demand for hotel rooms has increased the hotels can increase their prices, as supply is limited to 9,000 rooms. Furthermore, hotel operating costs on average in the sector have increased by 25% as stated, hence this price increase has been passed on to consumers in the form of a higher daily room rate **b**. The price increases are important in order to ensure that each hotel is profitable **c**.
- **Consumer tastes:** it is possible that consumers prefer to stay in hotel properties located in Belfast City for reasons of convenience, two airports within 16 km of Belfast and access to other facilities (e.g. transport links to *Game of Thrones* sites, the Giant's Causeway and Royal Portrush for golfing and other major events) **d**. Therefore, as a result, only 60 five-star rooms are available at any one time — fewer hotel rooms are available for use at key points in the year, which in turn drives up prices/room rates significantly as supply is exhausted **e**. Consumers are therefore willing to pay the higher room rate in order to meet their needs while staying at the hotel property chosen — even though an additional 1,170 rooms have now become available **f**.

(A01) **a** **d** The student correctly identifies two reasons and gives an explanation of these for 2 marks.

(A02) **b** **e** The student demonstrates application using examples and data from the case study and relates these to the explanation for 2 marks.

(A03) **c** **f** The student uses good context to analyse the reasons for the change in the average daily room rate.

Student A provides a detailed explanation of the issues, coupled with a good standard of application and detailed reasons for the change of average daily room rate from the stimulus material in order to achieve full marks.

8/8 marks awarded

Student B answer

The average daily room rate (price) might have changed in the hotel sector for the following reasons:

- **Increasing costs:** in order to survive, a business such as the Grand Central Hotel must cover its costs in the daily room rate charged **a**. Therefore, it is possible that operating costs on average in the sector increased by 25% as stated **b**. This price increase has been passed on to consumers **c**.
- **Consumer tastes:** consumers prefer to stay in hotel properties located in Belfast City for reasons of convenience **d**. So, if only 60 five-star rooms are available at any time **e**, then fewer hotel rooms are available, which in turn drives up prices/room rates significantly as supply is 9,000 rooms **f**.

This is a holistic level 2 answer overall, as it contains good, accurate knowledge and understanding, mostly appropriate application, limited use of source material to analyse the issues and good quality of written communication. For this student to achieve a level 3 response the examiner would require comprehensive knowledge and understanding, appropriate application from the stimulus, and well-focused and sound analysis with excellent written communication.

4/8 marks awarded

(A01) **a d** The student provides a brief explanation for two reasons for the price increase. This demonstrates a good standard of knowledge and understanding, meriting a mark within the level 2 mark band.

(A02) **b e** The student refers to the change in operating costs and briefly refers to the number of five-star rooms available, but does not make use of other examples from the stimulus material. This demonstrates a mostly appropriate standard of application, meriting a level 2 mark.

(A03) **c f** The student analyses the issues by relating the discussion briefly to passing on cost increases to customers and limited room availability. The student does not analyse the potential impacts of these issues. This demonstrates a basic standard of analysis, meriting a level 1 mark.

- c** Analyse three reasons why the owners of each hotel property would undertake their own market research.

[10 marks]

The 'analyse' command word means you must construct a logical argument using higher order skills in relevant business theory in a way that answers the question specifically and demonstrates a cause and effect relationship in the context of the issue stated in the question. In this context, you are required to provide three reasons why the owners of each hotel property would undertake their own market research.