For non-evaluation questions such as ‘state’, ‘explain’ and ‘analyse’ questions, assume you will get one mark per point that you make. The suggested answers for the questions in the Revision Guide will often have more possible answers and points than you will need to give. Remember this when you judge your answers against those in the book.

1.1 Role of business enterprise and entrepreneurship

Purpose of business enterprise and entrepreneurship

Any two of the following:
- Spotify provides consumers with the products they want: music, videos and podcasts – at a low price.
- Spotify delivers the products to the consumer’s home via the internet, which provides a convenient service as customers do not need to leave their home. This reduces other costs involved in buying, such as transport to the shop, as well as saving time.
- Spotify supplies a very fast service: the products are available for download immediately once payment has been made. There is no need for the customer to spend time going to a shop.

Characteristics of an entrepreneur

Any two of the following:
- Creativity: James Dyson saw a problem (a poor quality vacuum cleaner) and was able to come up with a new bagless vacuum cleaner.
- Determination: Dyson did not experience immediate success. Instead he tried out more than 500 different designs before he found a design that worked well.
- Risk-taker: Dyson gave up paid employment and relied on his wife’s income and savings to support his business.
- Confidence: James Dyson was sure that he could come up with a better design for a vacuum cleaner and this self-belief enabled him to keep going despite many failures, until he eventually came up with a successful design.

Risks and rewards of being an entrepreneur

(b) Feeling satisfied about making a success of starting a business.

Amelia hoped to make a profit and to enjoy being her own boss. She risked her own money and health in running the business. In the end, the business was unsuccessful – Amelia was exhausted and stressed and her relationships with friends and family suffered.

She did make a profit from buying and selling the business and would have had enough to pay off her debts and add something to her savings.

Maybe Amelia did not have enough determination to succeed to come up with solutions to the problems she faced. She should think about her own skills and qualities and will learn a lot and benefit from this experience.

Perhaps Amelia should have employed someone for part of the day to help her out or asked another business to take over the newspaper deliveries.

Financially, Amelia is better off as a result of buying and running the business for a short period. In view of this, she may feel it was worth doing, provided she can recover her health quickly.

1.2 Business planning

Purpose of planning business activity

A business plan reduces the risk of failure. Dunning Golf Club has thought through what it wants to achieve and how it will go about this. The plan will help the business to succeed because it includes the things it needs to do and the resources it needs. For example, the plan will:
- clearly state what Dunning Golf Club is trying to achieve (its aims and objectives)
- include details of workers needed, marketing activities and finance (and how this would be raised)
- identify competitors and what changes Dunning Golf Club should make in order to be more competitive.
Role, importance and usefulness of a business plan

(c) identify the resources that a business needs to succeed.

The Dunning Golf Club plan is good because it addresses the main points – the market, finance, resources and aims and objectives. The club has clearly identified the different areas it needs to work on if it is to achieve its objectives and this will mean there is a greater chance of success.

However, there are no SMART targets in this plan. For example, the plan could have stated targets for the number of new members it hoped to gain, extra profit it should make and by when these targets would be achieved. These targets could have been time-specific, showing milestones to achieve during the time period of the plan.

Targets and milestones would enable Dunning Golf Club to assess if its plan was working, make changes if it was not achieving its interim targets and enable it to measure whether the business plan had been successful or not.

1.3 Business ownership

Features of different types of business ownership

(b) The owners have limited liability.

The advantages to Aaron of taking on a new partner include the partner providing extra finance to expand the business. This would be better than a bank loan because no interest would be paid and the business would not increase its debts. The partner could also share some of the work load, which Aaron is finding hard to cope with. A new partner could also bring new skills, which would be benefit the business and complement Aaron’s skills.

The disadvantages are that Aaron would lose some control of the business as the new partner would have a say in how the business is run. Aaron needs to weigh up whether he is happy to lose some control in exchange for the additional investment. It would help if he knows the new partner well and feels that he can trust him or her, and that they would work well together. Having a partner may slow down decision-making, especially if Aaron and the new partner do not agree how the business should develop. Aaron would also have to share the profit.

Concept of limited liability

(b) The owner of a sole trader business has limited liability.

Changing to a private limited company means that Dan and Barbara now enjoy limited liability. If their business fails, they will have to sell off assets such as the lorries the business owns to pay off the business debts. However, if this sale does not raise enough to pay off all the debts, they will not have to sell off their private possessions or use their own savings. They would have to do this if they had remained as a partnership. Becoming a private limited company has been good for them because it has meant they can expand the business without personal risk to the non-business property they own, such as their house.

Suitability of different types of ownership in different business contexts

When it first began, the business that eventually became Marks & Spencer was a sole trader. Michael Marks needed only a small amount of finance to pay for the stock to be sold from his market stall and was able to borrow this money from a friend. The risk was small.

By 1894, the business had grown and Thomas Spencer became a partner as he was able to provide the business with new skills such as book-keeping, new business contacts and more finance to pay for a permanent market stall and a wider range of goods.

As more shops were opened, more finance was needed and this increased the risk for the two partners, so they became a public limited company in 1926. This protected the owners with limited liability and meant they could obtain more finance from a wide range of investors. The ownership of the business has changed to suit the needs of the business at different times, with each change helping the business to grow.

1.4 Business aims and objectives

Aims and objectives of business

(c) A business cuts the wages of its workers.
**How and why objectives might change as businesses evolve**

As with all businesses, when Ron Crosbie Tyres started the main objective would have been to survive so that the business had a chance to become established, as many businesses do not last more than a year. Later, when Kwik Fit opened in the town, competition increased. Again, Ron Crosbie’s main objective would have been to survive against this competition. He knew that providing a good customer service as well as competitive prices would keep customers loyal to him. Ron Crosbie did not want to expand his business because he was happy to make enough profit to live as he wanted to and to run his own business.

Kwik Fit may have started off with the objective of survival but it quickly became one of growth and profits. It expanded throughout the UK and began buying up firms overseas as well as offering other products such as insurance services.

**1.5 Stakeholders in business**

**Roles and objectives of internal and external stakeholder groups**

**[c] Workers at Debenhams plc.**

Internal stakeholders:

- **Owners:** they provide the money to pay for the wells and sell the gas to make a profit.
- **Workers:** they help to create the site and produce the gas so that they have a job and earn an income.

External stakeholders (any two of the following):

- **Customers:** gas consumers who want to buy gas at an affordable price.
- **Suppliers:** these will include the firms that produce the equipment to drill the wells and those that provide lorries to transport equipment. They will want to make sales and profits.
- **Government:** it will decide whether planning permission should be granted. It may want fracking to go ahead because this will create jobs which in turn means the government will receive taxes. However, the government may wish to protect the environment and instead encourage renewable energy production like wind turbines.
- **Local community:** those living nearby do not want fracking to go ahead because it will spoil the appearance of the area and there may be a risk of earthquakes occurring. Others living in the wider local community may want fracking to take place because they may get a job at the site.

**Effect of business activity on stakeholders**

**Internal stakeholders (any one of the following):**

- **Owners:**
  - **Benefit:** If the business is successful, the owners will earn profits/dividends. They may be able to sell on the business at a profit.
  - **Problem:** The owners take a risk because if the business is not a success, they will lose the finance they have invested.

- **Employees:**
  - **Benefit:** a successful business means there will be a variety of jobs available to construct the fracking site and then to run it. Some of these jobs may be well paid.
  - **Problem:** The construction jobs may only last while the building process takes place.

**External stakeholders (any one of the following):**

- **Customers:**
  - **Benefit:** Customers may benefit from cheaper gas for many years to come.
Problem: If Cuadrilla is not efficient, prices may be high and the supply of gas may be unreliable.

● Suppliers:
  ○ Benefit: Suppliers may earn money by selling equipment and maintenance services to Cuadrilla.
  ○ Problem: If Cuadrilla does not pay its bills on time, the suppliers may suffer from cash flow problems.

● Government:
  ○ Benefit: If Cuadrilla is profitable, its owners will pay corporation tax, employees will pay income tax and customers will pay VAT – all of these benefit the government.
  ○ Problem: The government may lose popularity if it grants planning permission for something which harms the local area.

● Local community:
  ○ Benefit: There may be a general increase in prosperity in the area, which will be good for local businesses and services.
  ○ Problem: It may suffer if the drilling activity causes pollution or congestion or harms the look of the area because of digging trenches, building new roads and the appearance of the drills.

Effect of stakeholders on business

Any one of the following:

● Employees of Cuadrilla: Good employees will help the business to succeed. If they are experienced, have good communication skills and understand the planning process, they will increase the chance of success for the planning application, as they will know how to present a good case and to deal with objections. If the employees do not present the case for the planning application well, it may not be successful. If they are backed with a lot of money from Cuadrilla, they stand more chance of being successful.

● Local community: They may be able to stop Cuadrilla Resources from drilling, but this will depend on how well it can campaign against the planning application. This in turn will depend on the skills of the campaigners and the amount of money they can raise to fight the campaign as well as the attitude of the government of the day towards fracking. Whether the campaigners succeed or not will also be influenced by how well the planning application is put together and presented by Cuadrilla.

1.6 Business growth

Organic growth

1 Sales have grown from $33,300 in 1976 to $49.6bn in 2016.

2 Apple’s growth has been mainly organic. It has been successful in researching and developing new products which have sold very well. It has produced good advertisements for its products and used them at a time when customers are likely to want to buy, for example, around September each year when people start to think about Christmas presents.

External growth

1 (b) Disney, the film-maker, bought the cartoon animation company, Pixar.

2 (a) Forwards vertical integration: the brewery has taken over a business which will sell its beer to the consumer.

(b) Diversification: the bus company has taken over the fitness centres which are not connected in any way to its business.

(c) Horizontal merger: the two businesses are both retailers and are at the same stage in the process of production.

2.1 Role of marketing

Purpose of marketing within business

1 Samsung could (any three of the following):
  ● reduce its mobile phone prices to encourage people to buy from it rather than its competitors (price)
  ● develop new phones with better features than those of its competitors (product)
  ● increase the range of places that sell its mobile phones – more shops, more online sites (place)
  ● increase its advertising to raise awareness of its mobile phones and persuade people to buy them (promotion).
2 Any one of the following factors:
- Finance: Samsung is a very big company so will be able to afford extensive advertising campaigns and a lot of research and development to design new products to sell.
- Target market (who it hopes to sell more mobile phones to): If Samsung decides that it wants to persuade more young people to buy its phones, it will need to advertise in the magazines young people read, on social media sites young people use and communicate a message that attracts young people to their phones.
- Location of potential customers: Samsung may decide to sell in different European countries. It will need advertisements in different languages, phones set up with different languages and to communicate messages that attract people in different cultures.

2.2 Market research

Purpose of market research

Market research will identify what Next’s customers want – the price they will be willing to pay, the styles of clothes they will want to buy, how many of each style they are willing to buy and the best way of informing the target market about the new range.

If the market research is accurate it will increase the chances of the new range of clothing being successful. However, if the market research is inaccurate, Next may pay out for a lot of clothes that it cannot sell or it may advertise through the wrong media and fail to inform its potential customers or it may use a wrong message in its advertising which puts off the customers from buying. In short, market research is crucial to the success or failure of Next’s new range of clothes.

Primary research methods

1 [a] Primary research
2 Any one of the following:
- The questionnaire targets members of the Royal Society for the Protection of Birds (RSPB), so the people who respond will be able to give relevant answers about the services it provides.
- The members are likely to be willing to help the RSPB, so it can be reasonably confident people will answer the questionnaire.
- It should be reasonably cheap to carry out the research as it already has details of the RSPB members.

Secondary research methods

1 Secondary market research is research using information that has already been gathered.
2 The Census will provide information about the number of old people who live in Leamington Spa. Age UK will be able to judge if there are enough old people to justify opening an office. It will also provide information about where most old people live in the town, which will help Age UK to decide where it should locate its office.

Appropriateness of different methods and sources of market research for different business purposes

1 Any two of the following:
- Questionnaire: Bolton Wanderers Football Club could send out a questionnaire (in the post or online) to season ticket holders whose names and addresses the club holds on its database. The questionnaire could ask straightforward questions that are easy to analyse and could show possible strip designs for fans to decide if they like them or not. This method is good because it is targeted at those who have a keen interest in the team and who are potential buyers of a replica strip, so they are likely to be willing to answer the questions and answer them honestly. A limitation is that fans will be limited in terms of how much they can explain their answers. Although a questionnaire is a cheap way of getting information, the club will spend a lot of money on having the football strip made and if they do not sell well, it could lose this money.
- Interviews. The club could invite a representative group of fans to come for a meeting to discuss what ideas they have for the design of the strip. This is good because the club is getting the views of potential customers. An advantage is that the fans may come up with ideas which can guide the design, but it is an expensive way to get information and the fans interviewed need to represent the full range of fans likely to buy
replica strips. Premier League football clubs tend to have lots of money and should be able to afford to do this, but it may be difficult for lower league clubs.

- Focus group. Sample strips of different designs could be made and invited fans asked to give their views about the different designs. Again, information is being sought from possible customers. This would help the club to know why the fans like certain designs and not others and to decide which would sell well. It is an expensive way of finding information and the club would need to be sure that the fans invited to the focus group were representative of the fans who would be likely to buy the strip. As with interviews, some, but not all, clubs will be able to afford to do this. Football clubs can earn a lot of money from selling replica strips so it is important and worthwhile to spend money to get accurate information about what the fans want.

- In conclusion, I would advise Bolton Wanderers to use a questionnaire and one other method, either interviews or a focus group. The questionnaires would provide ideas from a lot of fans. The interview or the focus group would help to obtain in-depth views of fans about the sample shirts. The club could analyse the data produced by its chosen methods in order to come up with a final design. It is worth spending time and the money to get the design right because the club can earn a lot of money from replica football strips.

Data from the websites of other dress-making businesses will be good for ideas and Jenny may be able to research the number of competitors in Norwich, what they sell and their prices. This information will be more specific to Jenny’s needs than, say, the UK Census data. It will also be cheap as she can access this information via the internet. This is important because Jenny is only just starting up in business, so she may not be able to afford expensive research. However, Jenny will not be able to tell how many customers there are likely to be in Norwich, whether there will be enough customers to justify another dress-making business and whether or not potential customers will like her designs.

**Use and interpretation of qualitative and quantitative data in market research**

Any one of the following:

- Conducting research that will produce qualitative data will involve the software company asking teenagers about the computer games they like to play and why they like them.
- Qualitative research will enable the software company to obtain the views of their target market and will help them to design a new game which will appeal to teenagers.
- Obtaining qualitative data will increase the chances of the product being successful, so will make money spent on research and development worthwhile.

**2.3 Market segmentation**

**Use of segmentation to target customers**

1. Market segmentation involves splitting the market into different groups according to a particular customer feature, or set of features, for example, according to gender, age, income level, pet owner, parent of young children, etc.

2. The benefit to Tesco of targeting customers means it can send information to them about products that those particular customers are likely to buy, rather than sending them lots of information about a range of products, many of which will not be relevant to that customer. It means the customer is more likely to read the information and to buy the targeted product, leading to an increase in sales.

3. Tesco could send information and offers on baby products and toys to parents of young children, based on its knowledge of what they buy each week according to their loyalty card. It could send special offers for pet insurance and pet toys and specialised foods to pet owners, again based on what its customers buy each week. (Any relevant example, clearly analysed, will be accepted.)
2.4 The marketing mix

Importance of the ‘4 Ps’ of marketing – product and stages of the product life cycle

1. (a) Invention: Kiddicraft Self-Locking Building Bricks invented by Hilary Page.
   (b) Innovation: Duplo is a development of the initial Lego building brick – a new design to meet the needs of younger children.
   (c) Design: All Lego bricks have been designed; new designs continue to be developed so that film and book characters can be made.

2. Lego created new figures based on film or book characters that were popular with children. Linking the bricks to film and book characters meant introducing new Lego designs. Lego undertake extensive advertising to promote their new designs.

Importance of the ‘4 Ps’ of marketing – pricing methods

1. Julie Roberts should use penetration pricing, which is a reduced price when the product (or in this case, service) is first sold. She needs to tempt new customers to try her hairdressing salon, rather than going to her existing competitors.

2. Vauxhall Motors should use promotional prices, which are reductions on the usual price at which the product was sold so that customers will be tempted to buy the old Astra models rather than the new models.

3. Apple should use price skimming, which is setting a high price when the new iPad is first sold. The aim is to make the product appear better than its competitors. Some customers will be willing to pay a high price for the latest technology.

Importance of the ‘4 Ps’ of marketing – promotion: point of sale and advertising

Note: There are no correct answers to these questions – you simply need to make an appropriate recommendation and justify reason(s) for your recommendation.

1. Regent Seven Seas Cruises (any one of the following):
   - The company could advertise in a national newspaper read by higher income people, for example the Daily Telegraph. This would help it reach large numbers of people who are likely to be in its target market. Advertising in a national newspaper is expensive but it will reach a lot of potential customers and the costs will be small in relation to the money the business might earn if people decide to book.
   - It could advertise online as many wealthy people have computers and are likely to have the skills to search for the information they need about cruises. The website can emphasise the fact that the cruises are luxurious and can stress the key benefits of sailing with Regent Seven Seas Cruises. This would be a cheap way of advertising.
   - The company could produce a glossy brochure which gives detailed information about the cruises and their key benefits. Retired people will have time to go to a travel agent to collect a brochure or to browse online and order a brochure. Printing a brochure will be costly, but the cruises are expensive, so this will be a relatively small cost overall.

2. Coca-Cola (any one of the following):
   - Coca-Cola could use a social media campaign via, for example, Twitter or Facebook, as these are widely used by the target age group. Images of people sharing a good time, at a party or festival, for example, could be used. These are cheap ways of advertising which reach many potential customers.
   - Coca-Cola could run a promotion at a music festival likely to be attended by young people.
   - It could run a promotional advertising campaign in cinemas before films aimed at teenagers/young people.
   - It could run a TV advertising campaign during TV programmes popular with young people.
   - All of the above would attract the appropriate audience. An ‘it depends’ statement could be included in the answer, for example ‘Coca-Cola could advertise during a TV programme which is popular with young people in order to get their message to their target audience. Such a decision would depend on how much it cost to buy the advertising time and how many people the advertisement would reach.’

3. Jacobs Biscuits (any one of the following):
   - The company could offer free samples of the new biscuit in supermarkets or at food fares so that people become aware of the biscuit and can taste it before buying.
   - Jacobs Biscuits could support free samples with a special offer on the price, for example, two for one or a price reduction to get people to
buy the product and hopefully to get a taste for it. The free samples would be a cost for Jacobs Biscuits, but, if successful, would be a relatively cheap way of gaining regular customers for the product.

Importance of the ‘4 Ps’ of marketing – place: distribution of products and services

1 [a]
- Direct selling by Dulux to retailers means that Dulux can sell in bulk. It will be willing to offer a discount because large sales are guaranteed and Dulux will make a profit from these large sales. The large retailers will be willing to buy in bulk because of the discounts offered.
- Dulux can sell in bulk to the wholesaler and so makes big sales. The wholesaler will then ‘break bulk’ by selling the paint in smaller quantities to retailers as they require. This means that Dulux paints will be offered for sale by many retailers.

[b] One disadvantage of selling to wholesalers is that they will want to make a profit and this will need to be deducted from the price, so Dulux will make less profit.

2 One of the following:
- Selling online means that consumers can buy insurance policies from LV Insurance at a time to suit them – 24 hours a day, 7 days a week. There is no cost to the consumer that there might be if they had to go to an insurance company office to purchase the insurance. Because it is so easy, this will encourage customers to buy insurance from them, increasing sales.
- It is cheaper for LV Insurance to sell their insurance policies online because fewer sales persons are needed and they do not need lots of offices in different parts of the country.

How the ‘4 Ps’ of the marketing mix work together and Use of the marketing mix to inform and implement business decisions

- The supermarkets may have introduced new ranges of cheaper or own-brand products such as value brands which would be lower quality but less expensive to produce. This might have changed the image of these supermarkets as only selling high quality products, but they would have responded to the needs of lower income consumers and the development of competition from Aldi and Lidl.
- Prices could have been lowered. This could reduce profits but if it ensured the supermarkets were meeting the needs of consumers and beating off the competition, it may have been considered worthwhile. Sales may not have fallen and may even have increased, which could lead to an increase in profits.
- The supermarkets could have increased the number of promotional offers, such as ‘buy one get one free’, offered more loss leaders and competitions to encourage customers into their shops. Advertising would have changed to promote the idea of value for money and the low prices now on offer, as well as any promotional offers. This promotion and advertising might have increased costs but it could have prevented a fall in sales and so maintained or increased revenue and profits.
- The supermarkets could have introduced online selling and delivery which is not offered by Aldi and Lidl in order to attract customers who want shopping convenience. While this would add to their costs, the supermarkets may have increased their sales as a result, which means they could have earned back the money to cover these costs.
- Deciding whether the changes to the marketing mix were successful would depend on what happened to sales, revenues and profits. Even if these fell, it could be that the strategy was successful if it was felt that, without them, they could have fallen more.

(Note: This example answer covers the four Ps. The marketing mix described is consistent and responds to the changed economic circumstances which influenced the market after the 2008/2009 recession.)

Interpretation of market data

The fall in profits is greater than the fall in sales so this suggests Joe is making less profit on each item he sells. While his prices are low, customers seem to prefer shopping in supermarkets, which may mean they no longer have time to buy vegetables on market days. Joe could try to change his target market, selling to the older and better off people in the local area. To do this, he could increase price and improve the quality of the vegetables he sells to change his target market. Joe could also add a
delivery service which might suit the needs of older or less mobile people in the community.

Joe could alter the ‘place’ aspect of his marketing by taking his stall to other market towns in Cheshire to try to gain new customers.

Joe could also improve his advertising. If he does aim for the better off, older consumers, he could leaflet houses in wealthier residential areas to give them information about his products, prices and any delivery service he offers.

3.1 Role of human resources

Identifying and meeting human resource needs

To some extent the needs of Bolton Wanderers Football Club remain the same – it needs footballers and a range of backroom staff. The change in the budget with its much-reduced income meant savings on staff were needed. The club would not be able to afford to employ top players and would have to cut down on the backroom staff. Some workers might have to do more than one job and some might have to take a pay cut. The size of the squad of players would have to be reduced, it would have to employ lower-paid players and players it could bring in without having to pay a transfer fee. The effect of all this would depend on the extent to which income was cut and whether the new owners were prepared to put more money in to give the club a chance of obtaining better players so that it could try to win promotion. This would increase the owners’ risk but could bring big rewards if it was successful.

3.2 Organisational structures and different ways of working

Different organisational structures

For Vauxhall Cars it would be sensible to use a tall organisational structure. There are a lot of workers in teams and each team will have a supervisor or manager, who will need clear direction from more senior staff above them. The work done by the teams will be repetitive, for example, fitting doors or seats. The workers will need to be told what to do and then their performance will be monitored to ensure quality.

Squarespace would benefit from a flat structure with little top-down control. The company needs creative workers who are able to come up with new designs to meet the needs of their clients. It will be appropriate to give them freedom and let them work freely with each other as this will be good for creating ideas. The workers will feel valued and will want to use their creative abilities for the benefit of the business.

Terminology of organisation charts

1. Five – Myiesha is responsible for Zac and for the four shop assistants.
2. Either Amna, Myiesha or Vafi.
3. Myiesha has delegated authority for buying jewellery for the shop to Zac Doyle.
4. Joe would send the instruction via Myiesha who, as his line manager, has authority over Zac.
5. Vafi has authority over the two production workers.

Why businesses have different organisational structures

1. (b) All organisation structures are tall.
2. Coca-Cola is a large business which sells its products around the world. It makes sense to produce the product in the region in which it is sold in order to cut down on transport costs of the ingredients (mainly water). By organising by place, it helps all the workers involved in production to communicate with each other.

Ways of working

1. McDonald’s will save money because it only needs to pay the workers when there is work for them to do, for example, during the busy times of the day such as lunch and in the evening, and not when the restaurant is slack.
2. Part-time work at McDonald’s may suit the worker as they can work at specific times of the day only. Some retired people may like this as they do not want to work full time or a parent may like it if they work when their child is in school. A student may like it because they can work when they are not in school, college or university.
The benefits of John Chilton working from home are that Bolton Gates may find that he works more efficiently, as John will not waste time coming into the office. He is likely to prefer the freedom, responsibility and trust placed in him to work at home and may work harder as a result. This will mean that John should earn good revenue for the business and it will get a good return for the cost of employing him. Bolton Gates will be able to judge this from the sales figures he achieves and the reports that he sends. However, it is possible that John Chilton is not working as fully as he might. He may spend time at home relaxing or going out when he should be working. Also, he may complete his work in a shorter time than he is paid for. However, John must write reports about the visits he makes so Bolton Gates will know how many visits he is making and they will be able to judge whether he is worth his pay by the number and value of sales that he makes.

3.3 Communication in business

Ways of communicating in a business context

1. Next should communicate with its customers via its website because this is permanently available, customers can access it from their home and can order and pay online. Most people now have computers in their homes and are comfortable buying online. It is a very cheap way for Next to communicate and more customers will be able to see what they sell and to buy from them.

2. A meeting is the best way for the human resources manager to communicate with the staff member because the manager needs to hear what the person has to say and to make it clear that his performance must improve. They would need to discuss any problems the worker may have and suggest how to overcome these. The manager would need to make sure the worker understands that he must improve and that his performance will be measured. The face-to-face meeting is an opportunity to make sure that both the manager and the worker clearly understand the situation and the solutions agreed. Questions can be asked so that both are clear in their understanding.

3. A text is the best way for the team leader to communicate a message to her sales team because the message is urgent and short. The sales team are likely to have mobile phones provided by the business and will check them regularly. No discussion is needed – it is simply a notification of a change of time. Text is an inexpensive way of sending the communication.

Importance of business communications

1. (d) The business would need to communicate with the government to obtain permission to increase output.

2. A marketing campaign is an external communication to give information. The Entertainer toy shop needs to get its message to potential customers so that they know what toys will be available and at what prices. The Entertainer toy shop may want to use persuasive messages which show how it is better than its competitors. It may need to tell customers about different methods of buying, for example, online or in a shop. Getting clear messages to potential customers is important for making sales.

Internal communication should also be considered: the marketing team at The Entertainer toy shop will need to communicate with each other to plan the marketing campaign, swapping ideas and making requests to the ICT staff who send out messages on social media and the company’s website.

Influence of digital communication on business activity

1. ‘Digital communication in business’ is the use of email, social media, websites, mobile phones, messaging sites such as WhatsApp and Twitter and so on. It involves the digital communication of voice messages, video, pictures and diagrams and text messages.

2. Film DVDs are no longer rented out from shops because films are now available online. This has been made possible through digital communications which means films can be downloaded to a laptop or set top box or smart TV. Payment can be made online too. This convenience suits consumers because it saves them the time and money involved in travelling to a rental shop. It is also cheaper as companies like Netflix do not need to run rental shops around the country.

3. Any two of the following:
   ● Digital communication has changed how workers are recruited. Many jobs are advertised online and applicants can apply using digital communications, completing an application form online and emailing their letter of application.
Digital communication and online advertising via websites and social media enables a business to advertise jobs to a greater number of people.
Digital communication has increased the productivity of workers as they can do more tasks more quickly.
Digital communication makes it easier to store and retrieve records which saves time. Digital communication enables workers to work while they are mobile.

3.4 Recruitment and selection

Why businesses recruit

1. (b) The business needs to cut costs.
2. Any two of the following:
   - There is an increasing demand for cyber security experts because the use of computing has grown in UK businesses and so has the number of computer hackers wishing to commit criminal acts. Both the company TalkTalk and the National Health Service have had their computer systems hacked, causing damage to their operations.
   - Demand for cyber security experts comes from businesses who want their own experts to look after their systems and from specialist firms who provide cyber security services to other companies.
   - A skills gap has led to a shortage of cyber experts, so firms may want to recruit them to make sure they have their expertise available to them rather than relying on outside firms who may not be able to provide a service at a time it is needed.
   - There is often a high turnover of cyber experts. Many leave one business to go to another for better pay. The organisation they have left now needs to recruit a replacement.

Use of different recruitment methods to meet different needs

Aldi could use internal recruitment to get workers from another Aldi supermarket who are experienced and who know how Aldi runs its stores. It could advertise in a company magazine or send, perhaps by email, an advertisement to experienced managers in the region so they know of the job. It would be cheaper to do this than advertise externally. However, Aldi would then need to advertise for workers to fill the positions of those workers who moved from other stores.

Aldi could use external recruitment to get a manager who already has experience of running a supermarket successfully and who could bring in some new ideas. It could advertise on its website or in a specialist magazine aimed at food retailers. Aldi would wish to advertise nationally so that it attracts talented people from around the country. It could also advertise locally for shop assistants, as it’s likely that people who live close to the new store would be interested in working there. It could advertise on its own website or a recruitment agency website and in the local newspaper as applicants for this type of job are likely to be local people.

Methods of selection

Any two of the following:

- Aldi should use interviews to select which applicant to employ. This is because the HR manager can ask each applicant the same questions about managing an Aldi supermarket and compare their answers. The HR manager will be able to make judgements about each applicant’s personality, for example, whether they are confident, able to communicate clearly and likely to be able to motivate and discipline workers.
- Aldi could ask each applicant to give a presentation. This would be an opportunity for the applicants to share their ideas about running the store and for the HR manager to evaluate whether these would be right for the new Aldi store. The HR manager would also be able to see if the candidates could communicate their ideas clearly and had the manner and qualities needed to be able to manage an Aldi store.
- Aldi could seek references from each applicant’s current employer to confirm that the information given on their letter of application or CV is accurate and to see if they would recommend them for the post and why.

3.5 Motivation and retention

Financial methods of motivation

(b) A bonus system.

Non-financial methods of motivation

1. Any one of the following:
   - An advantage of the award scheme is that it will motivate the care home workers because
those that work well are recognised for what they do and this will make them feel valued.

- It sends out a message to those that have not been given an award that they may be able to improve their performance.
- An award scheme is an inexpensive way for the business to motivate its workers.

2 Any one of the following:

- A disadvantage is that an award scheme could be divisive if some of the care home workers did not get an award when they thought they deserved one because they looked after the elderly residents at least as well as those given an award.
- If good workers are not given any financial rewards after long periods of good work, they may feel the business is taking them for granted and that the award scheme is a way of avoiding having to pay them more money.

### Importance of employee motivation and Importance of employee retention

1 Retention at Blossom Farm is not important because the workers are only needed for a short period of time during the harvest season. After this, there is no work for harvesters to do until the next autumn. Retention is more important at Belle Hair because customers usually prefer to be seen by the same hairdresser each time they visit and will be more likely to return if the hairdresser remains with the business for a long period. Hairdressers are required throughout the year. Retention will also save the business the cost of training new hairdressers.

2 Blossom Farm can motivate its farm labourers by giving them basic pay together with a bonus system, perhaps based on the number or weight of cabbages (or other vegetables) that they pick each day. This may motivate them to work hard so that they can earn more money and Blossom Farm would have its vegetables harvested more quickly.

3 Belle Hair could motivate the hairdressers it employs by offering them a profit-sharing scheme. They would be encouraged because if they provide a high level of service which encourages customers to return, this will help the business to make a good profit and they will benefit financially from this.

### 3.6 Training and development

#### Different training methods

1 Off-the-job training should be used because the health clinic is only just starting to offer acupuncture so is unlikely to have someone at the clinic who can do the training. Acupuncture is a skilled procedure involving sharp needles, so it would not be safe to use on a patient by someone who is not fully trained. The trainee must be trained by an expert in acupuncture, so a course which leads to an exam and a qualification would be appropriate. If staff are properly trained, the clinic will be able to insure itself against any future potential negligence claims from acupuncture patients.

2 An advantage is that the trainee would learn from an experienced and competent person who is already employed by the business. This could save the business the cost of sending the trainee on an expensive training course. The trainee would be able to do some work on customers’ cars as they train and so can help the garage to earn some money. The trainee would be trained to work in the way that most suits the garage.

A disadvantage is that the trainer would not be able to work on customers’ cars while he or she trains the trainee, and so the business could lose income. The trainer’s skills may not be up to date and he or she may not be aware of new or better ways of doing things which an external expert may be aware of. The garage would continue with inefficient ways of working if this was the case.
Why businesses train their workers

1 (c) To help them to move on to other companies.
2 Any two of the following:
   - The sales assistants at Homebase will be able to give good advice to customers about plants and how to look after them. Customers will like this and so will be likely to come back to buy more garden products, knowing they can get the advice they need. This will increase sales and profits.
   - The sales assistants may learn about health and safety procedures when dealing with chemicals such as fertilisers and insecticides. This will help to reduce accidents at work and potential insurance claims against Homebase.
   - Training staff may be one way in which Homebase can deal with a skills shortage when they cannot recruit qualified workers from outside the business.
   - Training workers will motivate them because they are able to get a qualification. It will make them feel valued by Homebase. In return they are likely to work more enthusiastically and with greater commitment, improving the service Homebase offers and retaining and gaining customers.

Staff development

1 Ryan’s apprenticeship was typical because it involved learning on the job and it led to a vocational qualification related to the job he had trained for. It trained him specifically for the job of a chef.
2 A professional development programme aims to develop the potential of a worker by improving their intellectual abilities and their general as well as specific work skills.
   Professional development qualifications may lead to academic qualifications such as a degree or vocational qualifications connected with a specific type of work.

Benefits to employees and businesses of staff development

Holts Jewellery has been able to develop its apprentices’ skills and has helped to fill a skills gap created as workers leave. It is confident that its specialist jewellers have high quality skills to pass on to apprentices.

Running its own apprenticeship scheme will cost the business as skilled craft workers will spend time teaching apprentices rather than producing goods. A possible problem is that skilled jewellers may not always make skilled trainers. A further problem is that once trained, workers could leave the business to work elsewhere.

Overall the business believes it is ahead of its competitors as its experts have set it apart. This will have helped the business to be competitive by making high-quality jewellery. It will also reduce waste resulting from poor quality goods which might need replacing. Holts will gain a good reputation for this and it is likely this will encourage customers to return as well as encouraging new customers to buy from them.

3.7 Employment law

Impact of current legislation on recruitment and employment

1 Any two of the following:
   - If a business discriminates against one of its workers, then the other workers may not like this. This could result in the workers having reduced motivation, which could affect the efficiency of the business and therefore raise costs. It could make it difficult for the business to compete.
   - Workers may not like the discrimination and may decide to leave. The business will now have to spend time and money recruiting replacement workers.
   - The worker who is discriminated against could take the business to court. If found guilty, the business could be fined and ordered to pay compensation. Bad publicity could reduce sales and make it difficult for the business to recruit workers in the future.
   - If the discrimination becomes public knowledge, it may affect the reputation of the business which again may result in a fall in sales.
2 (a) The business benefits because there is an agreement about what the worker should do. If the worker does not meet the requirements of their contract, the business can dismiss the worker. The contract and, specifically, the statement of particulars, provides written evidence about what was agreed.
(b) A worker could take a business to court if it does not meet its side of the contract. The contract is evidence of what the business has promised and so the worker would have to prove that the firm has not kept its promise.
4.1 Production processes

Different production processes and their impact on businesses

1 Any one of the following:
- Flow production means large quantities of chocolate bars can be made, making it possible for Cadbury to meet demand. By meeting the demand for its chocolate bars, Cadbury can enjoy high sales and profits.
- Flow production means lower costs because of economies of scale, which in turn lead to lower prices. This is important in a competitive market and will keep demand for Cadbury’s chocolate bars high.

2 Any one of the following:
- A problem of flow production is that Cadbury will need to keep large stocks of ingredients/materials to keep the production line flowing, which can be expensive. There may be a cash flow problem paying out money for the ingredients before revenue can be earned from selling the chocolate bars.
- The production could be stopped by a mechanical break-down or a strike by workers which would mean it would not have enough chocolate bars to meet demand.
- There may be poor motivation of workers and/or a high turnover of staff if the work is repetitive and boring. Poor motivation may reduce productivity and raise costs. Low retention would mean more staff would need to be recruited which costs money.

3 Adam Ansel should use job production because each photograph is unique. Even though this is an expensive method of production, customers will be willing to pay high prices for professional pictures of their friends and families.

Influence of technology on production and the impact on businesses

1 Any one of the following:
- An automated system for handling baggage reduces costs because fewer workers are needed.
- The productivity of the baggage handlers employed will increase because a lot of their work is being done by machines.

2 Any one of the following:
- A disadvantage of using an automated system for handling baggage is that there is a risk that the conveyor belts that transport the baggage once it is checked in may break down. This would cause a serious problem and would delay flights.
- Reducing the need for baggage handlers because part of the system is automated means that there may not be enough workers to deliver the luggage to the planes manually if the system breaks down from time to time. This could lead to delays in baggage being transferred to the aircraft.

4.2 Quality of goods and services

Concept of quality and Importance of quality in the production of goods and the provision of services

Any two of the following.
- A reputation for quality means that existing customers will be satisfied with the pizzas and the service and so will want to return (the case study refers to repeat business).
- Papa John’s are likely to obtain new customers as a result of their reputation for quality. Existing customers will tell family and friends about how good the pizzas and service are at Papa John’s and this will encourage people to try them. Other people will read about Papa John’s reputation for quality in the news and will want to try their pizzas.
- If the pizzas are of good quality, fewer customers are likely to return them and ask for a replacement. This will reduce waste and therefore costs.

Methods of ensuring quality

1 The Santa Cruz Guitar Company uses quality assurance. This is because each worker has responsibility for the quality of the work they contribute to the manufacture of each individual guitar.
4.3 Sales process and customer services

Methods of selling

1. [b] a buyer meeting with a seller.
2. Any one of the following:
   a) Sales assistants can make customers feel welcome in the shop by the way they treat them. This will make customers going into the shop feel comfortable and happy to be there. Feeling welcome is likely to encourage more people to visit the shop and to return in the future.
   b) Customers can ask the sales assistants for help and advice. This will give customers confidence in the shop. It will encourage them to buy from John Lewis, which will increase sales and profits.

Influence of e-commerce on business activity

1. Any two of the following:
   - For Aldi to develop its business to begin selling using e-commerce would involve investing in a computer system to process orders and payments. It would also need to recruit and train skilled staff to manage the e-commerce side of the business.
   - Aldi would need staff to pack orders ready for delivery and it would need to buy delivery vans and employ drivers to make deliveries. Alternatively, it could use a specialist delivery company.

2. Any one of the following:
   - Online selling would be convenient for the customer as he/she could order goods from home or on the move, for example, while travelling on a bus to work.
   - The goods will be delivered at a time convenient to the customer.
   - The customer would save the time and cost of going to the shop.
   - Customers who have difficulties with mobility will be able to shop more easily.

3. Any one of the following:
   - The customer is unable to check the quality of the goods before they buy as they only have a small image online to guide them.
   - The customer is putting their trust in good quality goods being selected by the person who picks out their shopping.
   - Customers may be disappointed with some products when they arrive and these will need to be returned.
   - Customers do not know if all the products they order will be delivered until the delivery arrives. If a product is needed urgently and is not available, the customer will not have the use of it that he/she wanted. There may be a cost involved in returning the product.

4. Aldi would hope to benefit by increased sales at a reduced cost of selling, thus increasing its profits. Increased sales may result because of the convenience to the customer. Reduced selling costs may result from the fact that goods do not need to be displayed in shops, saving money as retail space is expensive. Instead they could be stored in a warehouse which would be much cheaper and delivered to the customer from there.
   There are some additional costs to Aldi. The main cost will be delivery – Aldi will need vans and drivers to make the deliveries. There will also be the cost of dealing with returns. Another cost will involve administering the online system – running and updating the website and a system for recording and processing orders and payments.
   Aldi will need to compare the costs of the online system with the extra revenue it brings in to determine whether or not online selling would be profitable. Aldi has been very successful without introducing online selling so it may feel that its customers do not want to buy online and prefer buying in their shops.

5. Any one of the following:
   - Waterstones has kept its shops open because people like browsing in bookshops, especially when they are not sure exactly what book they want. People like being able to see the range of books for sale, look at them and decide if a book is what they want.
   - Waterstones sales staff are able to help customers and offer recommendations.
● Some customers do not like to make online payments. They prefer to visit a shop to pay by cash or card without making their details available to a seller such as Waterstones or potentially to computer hackers.

**Importance to a business of good customer service including after-sales service**

and **Contribution of product knowledge and customer engagement to good customer service**

1. (d) Customer engagement.
2. This campaign should help Starbucks to gain and retain customers. Getting a free drink will encourage customers to try Starbucks’ coffee. Using customers’ first names will make them feel welcome and customers will feel that staff are keen to look after them as an individual. Offering a friendly and personal service will create a nice atmosphere.

   However, this campaign will cost Starbucks money to give away the free drinks. Some customers may think the staff are being ‘over-familiar’ and it may put them off.

   The campaign will be successful if the extra revenue gained from returning customers is greater than the cost of giving away the free drinks. If customers only come when the drink is free, Starbucks will not have gained regular customers to bring in higher revenue. Information about revenues and costs will be needed to make a decision whether to continue this campaign.

**4.4 Consumer law**

**Impact of consumer law on businesses**

A business like Alton Towers needs to make sure that the services they provide are safe. They need to do safety checks on their rides and train workers to ensure customers behave safely. Testing and training are costs to the business which may reduce profits.

An accident involving a member of the public, similar to what happened at Alton Towers, can cost a business a lot of money. Alton Towers had to pay compensation to the girl who experienced severe injuries. Its reputation was damaged and some customers were put off using the park, at least for a time, so the business lost revenue. Some businesses that have failed to provide safe services have had to close down.

The financial costs of testing and training may be more or less than the compensation due in the event of an accident, but finance is only one issue here.

The most important issue for a business is the ethical responsibility it has towards its customers. In the Alton Towers case, the girl has suffered injuries that will affect her for the rest of her life.

**4.5 Business location**

**Factors influencing business location**

1. A dentist in the city of Oxford: Proximity or nearness to market – consumers will not travel very far to visit a dentist, so the dentist needs to locate in easy reach of enough people. Oxford is a city so there will be a lot of potential customers.
2. A pea processing factory in an area of farmland: Proximity or nearness to materials – the peas can be transported from the farm in their pods to the factory close by, where they will be picked and processed. Without their pods, the final product will be less bulky and cheaper to transport.
3. Asda warehouse near the junction of several motorways: Lower costs – there is easy access to the motorways so goods can be transported quickly to the Asda shops around the country.
4. A specialist bank in the financial district of London around Canary Wharf: Nearness to labour supplies because there are lots of finance jobs in this part of London, so finance workers will live in or near this district.

   Proximity to the market: A specialist bank will want to be near to other financial institutions which may buy services from it. This will make the customer institutions more aware of it and it will be easier to communicate with each other to arrange business deals.
5. A small manufacturing business on an enterprise zone in south Yorkshire: Government – the business will benefit from grants from the government or lower taxes, which will reduce its costs.
4.6 Working with suppliers

Role of procurement

1 Procurement involves buying in stock or services. It is a management process involving four stages – deciding what to buy, deciding which supplier(s) to use, placing orders and receiving goods once delivered.

2 The four stages involved in the procurement of Christmas decorations by the garden centre are as follows:

(i) The garden centre will decide which decorations it will stock. It will need to use last year’s sales figures to find out which lines sold well and which did not, and talk to potential suppliers about what is available. There may be technological developments which have led to new types of decorations.

(ii) The garden centre will decide which supplier or suppliers to order from. It will need a supplier who is reliable so that the decorations arrive when needed. The supplier(s) must also be able to supply the quantity of decorations needed.

(iii) Having chosen its suppliers, the garden centre will now have to complete order form(s) and send these off to the supplier(s).

(iv) It will need to arrange to have workers available to unpack and then store the decorations when they arrive. It may need to make storage space available. If the decorations are to be sold immediately, it will need to make display space available in the garden centre.

5.1 Role of the finance function

Impact of logistical and supply decisions on businesses

1 Tesco would not be able to sell the custard cream biscuits because Crawford’s was unable to produce them. Tesco would lose sales and revenue as a result. This is an example of the supply chain being disrupted (though through no fault of Crawford’s Biscuits).

2 The rise in the cost of fuel would increase the cost of transporting the custard creams to the supermarkets. Tesco would have to raise its prices to cover the costs or accept a lower profit margin. Other supermarkets would experience the same problem, so Tesco should not really lose sales to them unless they did not raise their prices and Tesco did.

3 Crawford’s needs to provide good customer services so that its customers have confidence in it. During the period that production was halted, it would have been necessary to keep Tesco informed and tell them when it was likely to be able to produce custard creams again so that Tesco knew when to order them. This is in the interest of both Crawford’s and Tesco’s.

4 (a) Logistics is concerned with delivering goods to the customer.

(b) Logistics is involved in the production of custard creams because it is concerned with the transportation of custard creams made in the Crawford’s Biscuits factory in Carlisle to the warehouses owned by Tesco’s in different regions of the country, and then on to the different supermarkets in each region.

Purpose of the finance function and Influence of the finance function on business activity

The finance function has shown that Cheeseman Publishers has a problem because its profits are expected to fall. This shows the owners that something needs to be changed. The owners have come up with ideas for solving the problem and finance can help them to see whether their ideas will work.

Cheeseman Publishers can look at alternative printers to the one they currently use in Italy, to see if books can be printed at a lower cost. It can work with the marketing department to discover whether the prices should be changed and whether new guide books would be welcomed by existing customers and potential new ones. The finance department could calculate the effect of these changes on revenue and costs and therefore on expected profit.

The finance department uses financial information to identify problems and solutions to those problems. It is a key part of monitoring and decision making in a business. Its work is equally as important as marketing, business operations and human resources in making a business successful.
5.2 Sources of finance

Reasons businesses need finance

1 (b) It is expanding its business.

2 Any three of the following:
   ● Lidl needs to raise money to expand the business by paying for new shops to be built.
   ● Lidl will also need money to recruit workers for the new shops.
   ● Lidl will need to finance the purchase of stock to sell in the shop.
   ● Lidl will need to pay for advertising to let potential customers who live near the shops know that a new shop is opening near them and to encourage them to try them out.
   ● Finance for spending on recruitment and marketing will continue after the shops have been opened.

Ways of raising finance

(a) 1 B, D, F, G
    2 A, D, E, I
    3 B, C, F, H
    4 A, D, E, I

(b) An advantage of trade credit is that there is no interest and the business has goods it can sell before it needs to pay for them. A disadvantage is that repayment has to be made within an agreed time period, otherwise interest will then be charged.

An advantage of issuing shares is that a lot of money can be raised because lots of new shareholders are able to contribute funds. A disadvantage is that the existing owners/shareholders will lose some control over the business as the new shareholders will be entitled to a say in the running of the company.

An advantage of a loan is that the money is available immediately and it can be repaid in agreed instalments over a period of time (two years in this case). A disadvantage is that interest must be paid, increasing the cost of the investment.

An advantage of taking on a new business partner is that money is available to expand the business and the new partner may have their own specialist skills that can help to make the business better. A disadvantage is that decisions about the business must be shared.

How and why different sources of finance are suitable for new and established businesses

Gordon needs finance for a short time – only until the customer pays the balance owed. Trade credit is ideal because Gordon will be able to purchase the kitchen units and, as long as he can get them fitted and receive payment from the customer within 90 days to pay off the trade credit, he will not have to pay interest. Using an overdraft or his own savings are possible short-term sources of finance that would give Gordon the money he needs to pay the wages of the workers. Gordon might be better to use his own savings to avoid paying interest on an overdraft. However, this depends on him having enough savings to use in the business.

Bowton Airport plc might be better using its retained profit as the money is available immediately and it would mean that the existing shareholders would not have to share ownership with any new shareholders. This would depend on whether there is enough retained profit. If not, the business would have to raise some money from a share issue. On the other hand, Bowton Airport plc might not want to use retained profit as it is useful to have some for use in an emergency. Also, the shareholders may want less profit to be retained and more to be distributed to them in the form of dividends. Issuing shares is a way of raising a lot of finance and there is no interest to pay. However, unless existing shareholders buy up all the newly issued shares, they will have to share control of the business with the new owners.

It makes sense for Wendy to use her own savings to pay for the rent and marketing as taking on a loan to cover these costs means she will have to pay interest. However, Wendy does not have enough finance available to cover the cost of the sunbeds. She will need a medium- or long-term source of finance to pay for these as it will take some time for her to earn the money to pay for the sunbeds. A loan is a source of medium-term finance. Wendy will be able to repay the loan over a period of time and she will know how much her monthly payments will be, which will help her when planning the business’ finances.
5.3 Revenue, costs and profits

Concept of revenue in business and its importance in business decision making and Calculation of revenue

1 Revenue is the money a business earns from its sales.
2 \( 10,000 \text{ (shirts)} \times £4 \text{ (selling price per shirt)} = £40,000 \text{ (total revenue)} \).
3 Any one of the following:
   - Primark needs revenue to pay its costs.
   - The revenue Primark earns will influence how much profit it makes.
   - The revenue Primark earns is one measure of how big it is.
4 If Primark raises its prices and it sells just as many clothes as it did before the price rise, the total revenue it earns will increase. However, Primark has many competitors and customers may decide to switch to buying from these competitors provided they do not also raise their prices and if Primark continues to sell lower quality clothes at an increased price. If Primark has raised its prices because it has improved the quality of the clothes it sells, it will now be in competition with retailers like M&S and Next so there is no guarantee its sales will increase. It would have to promote itself very effectively as a seller of good quality clothing to change people’s perspective of it as a retailer of low cost goods.

Concept of costs in a business and their importance in business decision making and Calculation of costs

1 Fixed cost – rent; variable costs – wood, nails, labour/wages (any one of these).
2 (a) \( £10 \div 20 = 50p \)
   (b) \( 80p + 50p = £1.30 \)
3 To calculate the total cost of producing 90,000 pallets, Desmond would add total fixed costs and total variable costs.

Note: You are not required to do the calculation but if you are curious the correct calculation would be:
\( £30,000 \text{ (fixed costs)} + £117,000 \text{ (90,000} \times £1.30 \text{ variable costs)} = £147,000 \text{ (total cost)} \)

4 Desmond is in competitive industry. He needs to keep costs down so he can keep his prices low and compete with other sellers of pallets. Also, the lower his costs, the more profits he can make.

Concept of profit and loss in business and its importance in business decision making and Calculation of profit and loss

1 Total revenue – total costs = £8m – £6m = £2m profit
2 Total revenue – cost of sales = £8m – £5m = £3m gross profit
3 Gross profit – expenses = £3m – £1m = £2m net profit

Calculation and interpretation of profitability ratios

1 (a) Gross profit margin = \( \frac{Gross \ profit \times 100}{Total \ revenue} \)
   \( = \frac{£76,800 \times 100}{£240,000} = 32\% \text{ (Year 1)} \)
   \( = \frac{£85,000 \times 100}{£250,000} = 34\% \text{ (Year 2)} \)
(b) Net profit margin = \( \frac{Net \ profit \times 100}{Total \ revenue} \)
   \( = \frac{£36,000 \times 100}{£240,000} = 15\% \text{ (Year 1)} \)
   \( = \frac{£30,000 \times 100}{£250,000} = 12\% \text{ (Year 2)} \)
(c) Looking at the performance of Food4U in Year 2 compared with Year 1, it is clear that net profit has fallen, which is not ideal. A possible reason for this is that costs may have greatly increased. However, the gross profit margin has risen which is good.

2 (a) The performance of North West Trains Ltd in 2018 compared to 2017 has not been good. Both the gross and net profit margins have fallen.
(b) North West Trains Ltd could try to increase revenue. One way to do this would be to raise prices. However, if there are competitors, such as other train companies or buses, or customers opt to use their cars instead, raising the price may cause a large fall in revenue.
in sales and revenue could fall as a result. It would also depend on how much the prices were raised by. Raising them a little may not reduce sales very much but it might not lead to enough extra revenue.

North West Trains Ltd could try to increase the number of customers using its trains. It could increase its advertising to try to bring in more customers. The advertising would need to target the right potential customers and be sufficiently extensive as to attract customers from all over the region served by North West Trains Ltd. Such a campaign will be expensive but will be worth doing if the extra revenue it generates is greater than the extra costs.

North West Trains Ltd could try cutting costs. It could reduce the cost of drivers, conductors and other workers, perhaps by getting them to work shorter hours or by making some staff redundant. However, this may not be easy because the company cannot run trains without sufficient drivers. It could consider introducing driver-only trains but there may be safety issues in not having a conductor. Another result of getting rid of conductors is that the trade unions would almost certainly reject this move and this could lead to industrial action, disrupting services and reducing sales revenue. The company could consider laying off some office workers. This would work if the productivity of the remaining workers could be increased. Pay rates could be reduced but again workers (and their unions) might object to this.

Note: Other suitable answers could refer to other costs such as diesel, marketing, administration, etc.

Calculation and interpretation of average rate of return (ARR)

1 (a) Total revenue (from the investment) – Cost of investment = Profit over the life of the investment

\[ \£500,000 - \£200,000 = \£300,000 \text{ profit} \]

(b) \[ \frac{\text{Total profit}}{\text{Life of the investment}} = \text{Annual average profit} \]

\[ \frac{\£300,000}{10} = \£30,000 \]

(c) \[ \frac{\text{Annual average profit}}{\text{Cost of the investment}} \times 100 = \text{Annual rate of return} \]

\[ \frac{\£30,000}{\£200,000} \times 100 = 15\% \text{ [ARR]} \]

2 Farmer Bill’s should invest. It will have an ARR of 15% by investing in the reptile house which is better than the 5% interest it would earn on its retained profit if it left this in the bank.

5.4 Break-even

Concept of break-even and Simple calculation of break-even quantity

1 The break-even output is the number of goods a business needs to sell to cover all its costs. It is the point at which the business is making neither a loss nor a profit.

2 \[ \frac{\text{Total fixed cost}}{\text{Price} - \text{variable costs}} = \text{Break-even output} \]

\[ \frac{\£700,000}{\£60 - \£25} = \£20,000 \]

Usefulness of break-even analysis in business decision making

(b) By completing a break-even forecasts a business will know how much it will sell.

5.5 Cash and cash flow

Importance of cash to a business and Difference between cash and profit and Usefulness of cash flow forecasting to a business

(c) A negative cash flow may be financed using an overdraft.

Completion of cash flow forecasts

1 A cash flow forecast is a prediction of the inflow of cash into a business and the outflow of cash spent on expenses and debt over a period of time.

2 A: The wages paid by Bowton Garage Ltd in February = \£14,000. B: The closing balance for March = \£25,000
3. **(a)** Total inflow is the amount of revenue/money a business receives from its sales and any other sources of income in a period of time.

**(b)** Net cash flow is the difference between the money that a business receives (its cash inflow) and the money it spends (its cash outflow) in a period of time.

**(c)** Opening balance is the cash the business has at the start of each month (or week if the cash flow is done on a week-by-week basis).

4. Drawing up a cash flow forecast is useful because it will help Bowton Garage Ltd to identify a problem such as negative cash flow and give the business time to think of a range of possible solutions.

5. If Bowton Garage Ltd had a negative cash flow, it could arrange an overdraft with the bank, which it could use to pay bills. It could also try to reduce its costs, perhaps by reducing some workers’ hours.

6. **1** Ethical and environmental considerations

    **Ethical considerations in businesses**

    1. Any four of the following:
        - Treatment of workers
        - Treatment of suppliers
        - Treatment of customers
        - Marketing considerations
        - Sourcing of materials.

    2. By conducting unnecessary tests, the health firms are treating customers badly. They charge a high price for tests which are not needed or which may be inappropriate for the customer. By conducting tests, they may cause the customer to experience other health problems, such as anxiety.

    **Impact of ethical considerations on businesses**

    One of the possible benefits to Sports Direct of improving the way it treats its workers is increased sales, because customers may now feel more comfortable buying from it. Employees are likely to be more motivated, potentially increasing productivity and therefore lowering costs.

    On the other hand, if Sports Direct increases the pay of its workers its costs might rise and this may mean the company increases its prices, which could lower profits. The success of Sports Direct is based on its low prices, so raising prices might cause it to lose its competitive advantage in a very crowded market.

    Even if Sports Direct makes improvements, they will not affect all of the workforce because many of the people who work at Sports Direct are agency workers not employed directly by the company. Their pay and hours may be unaffected by improvements made by Sports Direct, so the costs to Sports Direct may not increase that much. If Sports Direct gains good publicity from raising the wages of the non-agency workers it employs, this will improve its reputation and increase its sales.

6. **1** Environmental considerations in businesses

    **(a)** An environmentally-friendly business will not produce any waste products at all.

    **Impact of environmental considerations on businesses**

    By allowing raw sewage to be pumped into a river, Northumbrian Water has been negatively affected. The company’s costs have risen, it has been fined and it has had to invest in technology to prevent the problem happening again.

    The bad publicity may have led customers to have a negative view of the business as they may think the business should have reinvested profits to improve the company rather than distribute profits to shareholders.

    There may be a negative effect on shareholders who may decide they no longer want to be associated with the business. They may decide to sell their shares and this could reduce the share price and the value of the company.

    However, it is possible that in the long run this event may help Northumbrian Water to gain some positive publicity because it will be able to claim that it has spent money to become environmentally friendly. Overall the effect on the company may not be so great because Northumbrian Water is not in a competitive market. It is the sole supplier of water and sewage disposal services in Northumberland, so it will not have lost sales as customers cannot get their water or sewage disposal from any other company.
6.2 The economic climate

The economic climate and its impact on business

1 (b) Rising incomes often lead to an increase in the sales of luxury goods.

2 (a) The difference is explained by the types of goods that the two businesses sells. Poundland sells goods at low prices, including many necessities such as food, toiletries and clothing. Consumers still need to buy these even though their incomes are falling. Because their income is reduced, they look for cheap prices and possibly lower quality goods in order to save money. Dixons Carphone sells items that might be considered a luxury, and while for many people a mobile phone is a necessity, owning the latest model is not. Buying the latest model of a phone, or upgrading their computer or TV for example, was something that consumers could put off in order to save money while their income was falling.

(b) Dixons Carphone could do the following to change its marketing to minimise the expected fall in sales:

- Reduce prices in the hope that this would persuade more customers to buy and, if enough did buy, its sales revenue would increase. This would make new phones, for example, more affordable to people.
- It could support the price reductions with advertising to make consumers aware of the price reductions and to persuade them to buy.
- It could focus on cheaper products by selling lower quality/lower spec phones rather than selling the more expensive high-end phones. This would make a new phone more affordable for those on a reduced income.

6.3 Globalisation

Concept of globalisation

1 Any two of the following:

- Global sales: Jaguar Land Rover sells its cars in many different countries around the world including the UK, other European countries, the USA and countries in the Far East.
- Global manufacture: The production of cars involves many different countries. Components come from different countries and the cars are assembled in the UK and China.

- Global purchasing: JLR buys services from different countries around the world, for example, India.
- Global movement of capital: JLR is owned by a company in India which has provided capital for investment.
- Global movement of workers: JLR employs workers from many different countries around the world, including the UK, Romania and Australia.

2 Any one of the following:

- Improved communications, such as ICT communications, have helped JLR to become a global business. Good communications means JLR can produce in countries such as China and it can send designs and discuss quality issues quickly and easily.
- Improvements in shipping has reduced the cost to JLR of transporting its cars to sell in other countries. JLR will be able to compete better on price with cars made by competitors in the countries where it sells. The development of very large ships helps JLR to transport a lot of cars from the UK to other countries.
- Free trade deals mean that JLR can sell cars in other countries without the importers having to pay tariffs which would make the cars very expensive. This means JLR is more able to compete with car makers who manufacture and sell in their own country who will not have tariffs on their cars. For example, there are no tariffs on the sales of Ford cars made in the USA. A free trade deal with the USA would mean that there would be no tariffs on JLR cars imported into the USA.

Impact of globalisation on businesses

1 Any one of the following:

- Zara can sell its goods in many different countries – 88 in total. This has increased the size of its market more than if it only sold in Spain. It means that it has been able to increase the amount of clothing that it sells.
- Zara can produce its clothing in different countries. It can produce the clothes in countries which have lower costs including lower labour costs. This means it can sell its goods more cheaply and so can compete in a very competitive market.

2 Any one of the following:

- Producing in nearby countries improves communications. It is easy for managers from Zara in Spain to visit the factories in these countries to show and explain new designs.
● Being close to factories means that Zara’s managers can visit to discuss production and sort out any problems and can also check on quality.
● Ease of communication is one reason why Zara is able to design and make goods in a short period of time and change them quickly if the design needs altering.

3 The needs of customers in different countries will be different. Zara may find that some of the clothes it produces are exactly what customers in a certain country want. Other countries may require slightly different versions of clothing, so Zara can amend the designs so that they meet the needs of those consumers.

4 A rise in the value of the euro would increase the price of Zara clothing made in Spain and would be more expensive to import into the UK. The UK Zara shops might have to increase the price charged for the clothes which could reduce sales if customers were unwilling to pay a higher price. Alternatively, the UK Zara shops might keep the price unchanged so that sales do not fall. However, this would cause a fall in the profit made by the shops on each item of clothing imported from Spain.

7 The interdependent nature of business

The interdependent nature of business operations, finance, marketing and human resources within a business context and How these interdependencies underpin business decision making

1 Human resources: Merseyside Beds Ltd may need more workers to cope with the increased production. It may need fewer workers if production at its new factory involves more automated processes. Or it may need different kinds of workers, for example, technology specialists to operate the automated technology in the new factory. As the business is moving to the outskirts of Liverpool it may find some workers currently employed do not want to travel to this new location, so Merseyside Beds may have to recruit workers to replace them.

2 Finance: The construction of the new factory will need to be financed. Merseyside Beds Ltd may have to issue new shares or take out a bank loan. If it has savings it may choose to use these to fund the new factory. As the company will be producing more mattresses and beds it will need to finance the purchase of more raw materials. The finance function may need to arrange an overdraft to pay for this. More money may be needed for a new marketing campaign (see below).

3 Marketing: To make sure that it can sell the increased number of mattresses and beds that it produces, the company would need to increase its marketing. It may need to advertise nationally or, if it is planning to export its beds, it would need to advertise abroad. The marketing function would also have to research the price it needs to charge to sell the increased output. Market research should be carried out to find out what price potential customers would be willing to pay. The company may decide to lower its prices as demand often increases when price falls. Market research would indicate by how much the price should be reduced by.

Impact of risk and reward on business activity and Use of financial information in measuring and understanding business performance and decision making

1 Jo needs information about costs. She would need to work out how much extra she would need to pay the workers in wages. Also there would be other additional running costs such as heating and lighting. Jo also needs information about revenue. This would come from estimating how much she would sell and at what price.

From these two pieces of information Jo could work out whether opening in the evening would increase her profits. Jo could compare the total revenue to be gained from the total cost of opening in the evening to determine the potential profit.

2 There is a financial risk to Supersmoothies in buying another business as it will need to raise finance to pay for it. The company could take out a loan, but this would mean it would need to pay interest and also be able to repay the loan. It could use its own savings but doing so would mean Supersmoothies would lose the interest the savings would earn. It would be helpful to compare the rate of interest on a loan or savings against the annual rate of return (ARR) of the
investment to decide whether it is worth buying another business.

The reward to Supersmoothies of buying another business is the possible profit that it will make. It will be useful for the company to own its own fruit supply business as this will guarantee it a supply of the fruit it needs to produce its smoothies.

3 The Israeli business gives a better rate of return (ARR) and so Supersmoothies may think this is the better firm to buy. Supersmoothies will gain more from buying the Israeli business over the five-year period. However, the ARR is only a prediction and circumstances in each economy could change. Supersmoothies should consider other information. For example, there is no information about wage costs in Israel. If these are rising, they may reduce the ARR in Israel in the future.

Wage costs have been stable in Spain for some years, but these may rise, especially if unemployment in Spain falls. However, if unemployment does not fall by a lot, wages will not rise much and so this will have less of an impact on the costs in Spain. Transport costs may change from one country to another and this will need to be compared. The ARR is a useful indicator but does not provide enough information on its own. Supersmoothies will need to carry out further research to make a decision.