1.1 The purpose and nature of business

1. Opportunity cost is what is given up as a consequence of a particular decision.

2. Answers may include any two of the following:
   - Land resources would include a range of foods such as meat, vegetables and cooking oils as well as spices and herbs.
   - Labour resources would include Rafael’s input into the business and that of any staff he employs.
   - Capital resources would include the building itself, cooking equipment and furniture such as tables and chairs for the restaurant itself.
   - Enterprise factors would be specialist staff employed by Rafael to help run the business, such as chefs, a wine expert, waiting staff and a receptionist to take bookings.

3. Answers may include the following:
   - An increase in interest rates would mean that Rafael would have to pay more for his loan. This would increase his costs and it might make it more difficult for him to succeed, especially if he fails to attract enough customers.
   - The size of the loan and the fact that interest rates are forecast to increase ‘substantially’ may be a big problem for Rafael. These two factors may mean that he has to pay a lot more interest to his bank and this might mean his business does not make a profit. Rafael is already worried about this, suggesting it is a major issue.

4. Answers may include the following:
   - There are some downsides. Rafael has not planned his business very well and may not be prepared for some events which may happen in the future. For example, he has not made any plans for his finances and may not cope well if things go wrong.
   - However, Rafael is very keen on cooking, is creative and works hard at his ideas. These are important characteristics for an entrepreneur and could be essential given the type of business that Rafael intends to set up. This is supported by him being organised which would be vital to help him plan and carry out the challenging task of creating a new restaurant from scratch.
   - Rafael has some of the characteristics of a successful entrepreneur, but lacks one which may be most essential – that of taking a risk. He is worried about money and the possibility of losing his home. This is understandable but probably means he wouldn’t be a natural entrepreneur.

1.2 Business ownership

1. The Stock Exchange is a market for buying and selling shares of public limited companies.

2. Answers may include the following:
   - A public limited company is a legal structure used for large businesses such as Marks & Spencer plc who have many employees and large numbers of customers. Paula’s business will be much smaller.
   - It is very expensive to establish a public limited company and although Paula is wealthy, she does not have sufficient money to start a plc – nor does she need to do so, as she doesn’t need to sell shares to the general public to raise money to start her business.

3. Answers may include the following:
   - A Deed of Partnership is an agreement between partners which sets out the rules of the partnership, such as how profits will be divided.
   - The Deed of Partnership will set out the rules governing the business. Paula has clear ideas and she could ensure that she has the majority of the voting rights, so that she remains in control of her business.
   - Paula is quite wealthy and is likely to put in a large sum of money into the business. The Deed of Partnership can set out what percentage of profits she would receive and make sure it reflects her investment and involvement.

4. Answers may include the following:
   - A private limited company is a relatively small business (often owned by a family) that has its own legal identity. It can own items, owe money, sue and be sued. A sole trader is a business which is owned and managed by a single person.
● Paula is wealthy and, if she establishes *Bloomers* as a private limited company, she will benefit from the protection of limited liability. This means that if the business fails or incurs large debts her personal possessions will not be used to pay the business’s debts.
● Paula is a decisive person and would enjoy operating her flower shop as a sole trader. This would allow her to make all of the decisions without the need to consult other people. Decisions could be made quickly which might help Paula to establish her new business.
● On balance, Paula should choose to use a private limited company as the legal structure for her flower shop. The protection of limited liability is very important as she is wealthy and has no entrepreneurial experience. It would also allow her to benefit from her cousin’s advice while still being able to make the final decision.

### 1.3 Setting business aims and objectives

1. Answers may include the following:
   - Profit maximisation
   - Growth
   - Survival.
2. Market share in Year 1 = \(\frac{\£900,000}{\£27,550,000} \times 100 = 3.27\%\)
3. Market share in Year 2 = \(\frac{\£2,450,000}{\£36,700,000} \times 100 = 6.68\%\)
4. Change in market share = 3.41%.

### 1.4 Stakeholders

1. Answers may include two of the following:
   - Owners.
   - Employees.
   - Customers.
   - Shareholders
   - Suppliers
   - Local community
2. A shareholder is someone who owns a company. In Lerwick Ltd’s case this includes Usha, members of her family and some other local people.
   - Stakeholder is a wider term referring to any person or group with an interest in a business. Although shareholders are one example of stakeholders, Lerwick Ltd’s stakeholders include its employees, its customers such as Argos, and the local community living near its factory.
3. The cut in prices may not increase the company’s profits as Usha is doing this in ‘the hope’ of increasing profits. The company’s shareholders may not agree that this is a good decision.
   - On the other hand, Lerwick Ltd’s customers will be delighted by this move. Retailers such as Argos may continue selling the fishing equipment at the same price and enjoy more profits. Employees may be less happy. The price reduction could lead to a wage cut, or at least make it much more difficult to negotiate a pay rise.
1.6 Business planning

1 Profit measures the difference between the value of a business’s revenue (from sales) and its total costs.

2 The total sales revenue of the business will be £26,500 + £14,750 = £41,250
   Total costs = £7,450 + £19,950 = £27,400
   Profit = £41,250 – £27,400 = £13,850

3 Answers may include the following:
   - Hanif needs to borrow quite a lot of money to start his bicycle shop. His business plan suggests that he will need a loan of £25,000, which is about 40 per cent of the money required to start his business. Any bank considering lending him the money will expect to see a business plan to judge whether the money is likely to be repaid.
   - Hanif is unsure whether he should start his business. Preparing a business plan will help him to understand more about his business and its chances of success. Once he has completed his business plan he might be able to make a more informed decision on whether or not to go ahead with his enterprise.

4 Answers may include the following:
   - Hanif has no experience in running a business and this might mean that he makes some wrong decisions once he is managing the business. As a result his business might not be a success and he may not make sufficient profit to repay the loan. The bank manager may think that this loan will be very risky.
   - Hanif is investing more than half the money that is required to start his business and is preparing a business plan to help him
to make a judgement on whether or not he should go ahead. This should help to give the bank manager more confidence that Hanif’s business will be successful.

- On balance, the business’s prospects look favourable. He is forecast to make a large profit in his first year and an accountant has helped him to prepare the financial forecasts. The profit figure is more likely to be accurate as a result and, if correct, suggests the business will be a financial success. The bank should grant the loan.

### 1.7 Expanding a business

1. Organic growth occurs when a business gets bigger by selling more of its products.

2. The data shows that its average unit costs will rise from £25 to £28. The company’s retailers want the same prices, so this could mean that the profit on each item falls after the expansion.

3. Answers may include the following:
   - The retailers that sell Cotton On Ltd’s clothing are saying that they want more clothes to sell. By using outsourcing the company can increase its production very quickly. This would allow it to take advantage of the popularity of its clothing, which may not last forever.
   - The supplier that Cotton On Ltd is considering using is able to produce the items of clothing at the same price per item as the company itself. This suggests that the company’s profits will remain as they are.

4. Answers may include the following:
   - Going ahead with the expansion plan will lead to Cotton On Ltd suffering from diseconomies of scale if it increases its output to 1,200 items a day. The data shows that its average unit costs will rise from £25 to £28. The company’s retailers want the same prices, so this could mean that the profit on each item falls after the expansion.
   - The expansion could make sense if Cotton On Ltd chooses to use the supplier to outsource some of the production that is needed. This would allow it to avoid the diseconomies of scale that would result if it increases its own production beyond 800 items a day. The supplier is ready to produce up to 600 items, so has sufficient capacity.
   - Much depends on the quality of the supplier’s clothing as Cotton On Ltd enjoys a good reputation for the quality of its products. However, the samples sent by the supplier have been excellent quality. On this basis, the company should expand using outsourcing.

### 2.1 Technology

1. Answers may include two of the following:
   - Email
   - Webchat
   - Social media such as Twitter and Facebook.

2. Answers may include the following:
   - ICT has affected the location of MPS Ltd’s employees who manage the ICT system. They are all based in Leeds, rather than being scattered around the country at various stores. It may have helped in terms of staff efficiency as it is managed by a small team.
   - The ICT has helped MPS Ltd to collect information about its customers. It holds a lot of information about its customers and this can be analysed to help the company to take decisions on what to stock.

3. Answers may include the following:
   - The use of digital communication has helped the company and its customers to communicate quickly and effectively. For example, customers use email and social media to enquire about buying the company’s products online.
   - The company has 47 suppliers and they are able to access the company’s extranet. This allows them to communicate quickly about issues relating to supplies.

4. Answers may include the following:
   - The company is profitable and by selling through its shops it is able to provide customers with advice as well as photographic services. This is a level of service that it cannot provide online and helps to distinguish the business from its larger competitors.
   - MPS Ltd’s customers clearly want to be able to buy products online. Online sales are rising and, if the company wants to turn around its recent fall in sales, creating a website is an obvious move.
   - It would be a sensible decision to sell online. MPS Ltd clearly has a reputation for providing
advice and local services and this is perhaps the reason for its success. However, it can sell online alongside this. It is obviously what its customers want, so if it fails to do this it may lose further sales to larger competitors.

### 2.2 Ethical and environmental considerations

1. Sustainability refers to methods of production which can be continued in the long term without damage to the environment.

2. Answers may include the following:
   - The company might buy its timber from supplies that do not grow timber sustainably. Some timber comes from overseas and the environmental costs of transporting it may mean that its use is not sustainable in the long term.
   - The company transports its products throughout the UK. Its vehicles are likely to add to air pollution, as they deliver throughout the UK and travel long distances. They may also be caught up in congestion adding further to air pollution.

3. Answers may include the following:
   - The company could ensure that all its timber is sustainably grown. This means that the timber it uses is replaced with newly planted trees in a relatively short period of time. As a result the company can be assured that it will not use up all the timber available to it.
   - GA Ltd could also consider more environmentally-friendly methods of transport. For example, it might decide to just use UK-based suppliers. This would mean that the timber would be transported shorter distances. This would lead to lower emissions of carbon and other gases. Timber is heavy and bulky, so this could have a significant impact.

4. Answers may include the following:
   - The company sells similar products to the other businesses that are in the same market. It also sells at similar prices. If GA Ltd adopts environmentally-friendly methods of production this may increase its costs. As a result its prices may have to be increased and its products may appear relatively expensive and less value for money. Sales may fall.
   - The company could make its products more distinctive and different from those of its rivals if it became environmentally friendly. It could use this in its advertising and this might help it to attract and keep more customers. This might help to increase its sales, even if its prices are higher.

- Becoming an environmentally friendly company is an approach that may work as GA Ltd will probably struggle to increase its sales with its current approach, especially as it is finding it difficult to keep costs low. The market is made up of many similar businesses, so being different may help it to achieve its aim of growth.

### 2.3 The economic climate of business

1. An overdraft is a flexible loan which businesses can use, whenever necessary, up to an agreed limit.

2. Answers may include the following:
   - Kiki may benefit from more people wanting to visit her hotel as there will be more people in employment and therefore able to spend money at the hotel. This might help her to attract more people into her restaurant, which sells food which represents good value for money.
   - Kiki may find it increasingly difficult to hire people to work at the hotel as it is already a problem. She may also have to pay employees higher wages to prevent them leaving for other jobs. This may increase her costs and make her hotel less profitable.

3. Answers may include the following:
   - Interest rates are the price of borrowed money, expressed as a percentage rate.
   - The rise in interest rates could affect Kiki’s hotel because she borrowed a large sum of money to purchase the property. She has to make repayments on this loan and a rise in interest rates will increase the cost of these payments.
   - A rise in interest rates could lead to a large increase in Kiki’s costs. She already has a large loan and the rate of interest is forecast to rise steadily over the next year. Added to this, she also has an overdraft on which she has to pay interest and which she ‘struggles to repay’. Kiki’s suppliers may also put up their prices in response to a rise in interest rates, which will increase Kiki’s costs further.

4. Answers may include the following:
   - Rising incomes can benefit a business because they can expect to sell more products, especially if these are income elastic products.
which consumers buy in larger quantities when their incomes rise. This might be true of Kiki’s hotel which is an income elastic service.

- Some businesses, however, may not see a rise in sales in these circumstances. Businesses that sell basic foods such as eggs and bread may find that their sales are stable when consumers are enjoying higher incomes. The extra income will be spent on other products, such as a stay at Kiki’s Hotel or a visit to her restaurant.
- It is not the case for all businesses. Some will benefit, but some may even suffer falling sales. For example, fewer people may travel on buses as rising incomes mean that they can afford to buy a car. Also many businesses may have to pay higher wages so that consumers can have higher incomes.

2.4 Globalisation

1 Quality is the extent to which a consumer is satisfied with a product.

2 Answers may include the following:
- Globalisation is the trend for markets to become worldwide in scope.
- Supermarkets in the UK may be able to buy a wider range of products from different countries. They may also be able to find suppliers who charge lower prices, helping their profitability.
- UK supermarkets are facing increased competition from overseas rivals such as Lidl. This might result in lower sales and less profits if they lose customers to foreign supermarkets.

3 Answers may include the following:
- A fall in the exchange rate of the pound increases the cost of imported resources. Green Ltd imports a large quantity of resources from overseas. This will have a substantial effect on its costs of production and may make it more difficult to sell its products if it increases its prices. Green Ltd already sells at ‘very high prices’.
- However, Green Ltd also sells overseas. The fall in the exchange rate of the pound will make Green Ltd’s prices lower in overseas markets, for example, in Europe. Although its costs of production may have risen, this may be offset by the lower prices of its meals when prices are converted from pounds to foreign currencies. This may help sales and profits.

4 Answers may include the following:
- Green Ltd may be able to design some new ready meals that would prove popular overseas. As it is a manufacturer of quality meals it could develop a range of classic British dishes, such as beef Wellington, for sale to international customers. This may help it to win new customers who have not bought its products before.
- Alternatively Green Ltd could focus on the quality and price of its products. Its ready meals are recognised as being quality products. If the company could reduce its prices a little this would make them better value for existing customers who may increase orders. This might also attract new customers.
- These two suggestions could be used together. The new range of ready meals could be sold at very high prices, while the existing products could have prices reduced slightly. It may not need a large fall in price as the exchange rate of the pound has fallen recently. This will already have reduced the prices of the company’s ready meals.

2.5 Legislation

1 Answers may include the following:
- Employees are protected against a dangerous working environment.
- Employees are given protective clothing where required.
- Employees receive training in health and safety matters.

2 Answers may include the following:
- The company’s consumers are protected against buying dangerous products – for example, a television that is electrically unsafe due to poor wiring or a radio which contains dangerous chemicals.
- Etal plc’s customers who buy online are protected because the product remains the responsibility of the company until the consumer actually receives it. This protects against expensive items ‘going missing’ and customer’s being left out of pocket.

3 Answers may include the following:
- Many of the company’s employees are young and female and may have children in the future. This means that they could benefit from maternity pay, which will enable them to spend time with their newly-born children, receive some pay and the certainty of returning to their job at the end of their period of leave. Male employees will also be eligible for paternity pay and leave.
Most of Etal plc’s employees are members of a trade union. Employment law gives employees the right to be members of a trade union. Etal plc’s employees receive relatively high pay rates, which may be because they are supported by a trade union.

Etal plc’s employees are diverse and would therefore benefit from the Equality Act which protects them against discrimination. This means, for example, no group in the workforce can be treated any differently without good reason, so everyone benefits from Etal plc’s relatively high rates of pay.

Answers may include the following:

- Etal plc benefits from the positive impact that employment and health and safety legislation has on the performance of its workforce. The company always conforms to relevant laws and its employees are loyal to the business. This means the company earns high levels of revenue and does not have to appoint many new employees.
- The company inevitably incurs higher costs of production because of this legislation. It has a workforce with many young female employees and may have to spend heavily on maternity pay in the future. At the same time its pay rates are higher than those in similar factories. This might be because many of its employees are members of a trade union. These high costs may lead to lower profits.
- Overall the company may benefit from these laws. It helps it to have a happy and efficient workforce that is loyal to the business. This probably helps to make the company’s products popular with UK consumers and helps to boost its profits.

2.6 The competitive environment

1 A multinational company produces goods and services in more than one country. They are also known as transnational corporations.

2 Answers may include the following:

- A risk is the possibility of something going wrong.
- Kenton could face the risk of bad publicity if some of his beer was of poor quality. This might mean that some of his new customers – who have little experience of his business – might lose trust in him and not place any further orders for beer. His sales could fall sharply.

- Kenton might not attract sufficient customers in the first place. His is a small business and even if he spends a large proportion of his £50,000 on advertising, this is a small sum alongside the advertising spending of multinational brewers. Not enough customers will know about his brewery.

3 Answers may include the following:

- Kenton operates in a market which has a lot of small breweries selling similar products. This means that there is a lot of price competition and Kenton has to try and make his beer different – and better – than that of his rivals.
- At the same time, globalisation has allowed some large multinational companies to enter the UK’s beer market. They can produce a lot of beer and have well-known brand names. This can make it difficult for Kenton to compete.

4 Answers may include the following:

- Drawing up a business plan for the expansion would be an excellent idea for Kenton. He is worried and this might help to reduce his concerns, especially as an experienced entrepreneur has offered to help him plan the extension, which will reduce the risk of Kenton making further mistakes. If Kenton wished to borrow £50,000 a business plan will be essential to persuade a bank to lend him the money.
- There are possible opportunities for Kenton to sell his beer in markets overseas as well as in the UK. This will help him to achieve higher sales as there are many potential customers overseas and this may reduce the risk of not attracting sufficient customers. It would also reduce the risk associated with an increase in the UK tax on beer.
- It would seem that a plan is essential because Kenton wants to borrow a large sum of money and a bank would be unlikely to lend without a plan to show that the money has a good chance of being repaid. Without the loan Kenton will be unable to pay for advertising which will increase his risks.
- However, there may not need to be a choice between using a business plan and selling in different markets. Kenton could do both, which would probably reduce his risks the most.

3.1 Production processes

1 Efficiency refers to a situation in which a business uses relatively few inputs to produce its goods and services.

2 Answers may include the following:
Job production is a method of production in which a product is supplied to meet the exact requirements of a customer.
- The company only produces two products – still and sparkling water. There is not much scope to alter these products to meet customers’ needs.
- The company looks to control its costs carefully and this would not be possible if it was to use job production as it would have to produce different products for each of its customers. This might increase its costs and therefore its prices.

3 Answers may include the following:
- Flow production occurs when an item moves continuously from one stage of the production process to another.
- The company produces huge quantities of bottled water for its customers and its sales are growing steadily. Flow production offers an ideal system under which to produce this volume of products.
- The company makes use of technology to help keep its costs low and to increase its ability to produce increasing quantities of bottled water. Flow production enables the use of technology and this is essential if the company is to continue to increase its output to match demand from its customers.

4 Answers may include the following:
- Lean production is an approach to production that aims to minimise waste.
- The company has been very successful in selling its products, partly because it has controlled costs and kept its prices low. Using lean production techniques to reduce waste will help the business to become more efficient and possibly to lower its prices further.
- Manuela plc uses a large number of suppliers from which it buys its bottles. This would make it more difficult for the company to operate a just-in-time stock control system. It would be easier for the company to operate this with one or two larger suppliers.
- There are clear benefits to the company in controlling waste and its costs. It may need to negotiate with its suppliers – and perhaps reduce their number – to make just-in-time production work. Overall the company would be more likely to continue to increase sales and to make high profits with the use of lean production.

3.2 The role of procurement

1 Purchasing economies of scale occur when the cost per unit falls if large orders are placed with suppliers due to a bulk discount.

2 Answers may include the following:
- Buffer stock is the minimum amount of stock held by a business to ensure its production can continue normally.
- Petra Ltd has never had any dealings with these two suppliers. They might not be reliable and production may have to be stopped if no supplies are available.
- Petra Ltd has some very large customers. If it cannot supply these customers because it does not have sufficient supplies of its own, it may lose their custom.

3 Answers may include the following:
- Petra Ltd would have had to consider the cost of buying from these suppliers very carefully. Its customers, such as Primark, want to be able to buy cheaply, as price is very important to them. Petra cannot supply cheaply if it has to pay its own suppliers high prices.
- The new suppliers should be able to supply flexible quantities at very short notice. Petra Ltd is using a JIT system and has customers who demand varying quantities of products at short notice. The company’s new suppliers must be sufficiently flexible to manage these circumstances.

4 Answers may include the following:
- Just-in-time production holds as little stock as possible. Items are ordered just in time to be used.
- Price is very important for Petra Ltd’s customers, such as Primark. If Petra Ltd can reduce its costs by holding little or no stock, then it is likely that it will be able to sell its fast fashion at lower prices. This might help the company to gain more sales, especially as its customers may order very large quantities.
- This decision may result in Petra losing its purchasing economies of scale as it will be placing a larger number of smaller orders. This could offset many of the other financial advantages associated with JIT stock control methods.
3.3 The concept of quality

1. Outsourcing occurs when a business uses another business to produce for it.

2. Answers may include the following:
   - The company’s customers will expect to have a burglar alarm that is reliable and does not stop working. They have purchased an alarm in order to protect their possessions. If the burglar alarm breaks down they may suffer theft of their possessions.
   - Customers will expect the burglar alarm to be effective and to prevent intruders entering a house or other property by activating as soon as intruders are detected. If the alarm is not effective or does not always work properly, it will not meet their needs.

3. Answers may include the following:
   - The company is not very profitable. If it has a large number of its alarms returned to the factory this will increase its costs as it will have to replace or repair them. In either case this will involve increased spending and its already small profits may shrink further.
   - The company wants to grow further. If its reputation is hit by increasing quality issues, existing customers will go elsewhere. It will also become more difficult to win new customers. The company may find it very difficult to continue to grow.

4. Answers may include the following:
   - The company has received an increasing number of complaints about poor quality. Introducing TQM will help to overcome this by involving everyone in the business in inspecting the alarms and making sure that they meet agreed standards. This could reduce the number of complaints.
   - Saracens Ltd does not have a lot of money to invest in training its employees to use TQM. The company is not profitable and unless it can train its employees to operate the system of TQM it is not likely to be successful.
   - The problem with quality has only occurred since Saracens Ltd started outsourcing its production. There may not be a problem with quality issues at the company’s factory in Derby. It does not make sense to introduce TQM here when the problem is at the factory owned by the outsourcing company in Glasgow.

3.4 Good customer service

1. Answers may include the following:
   - Improving the product knowledge of its staff.
   - Using communication using ICT such as Facebook and Twitter.
   - Providing a more positive experience for the customer.
   - Improving the product design to meet expectations voiced by customers.

2. Answers may include the following:
   - The company may be able to attract more customers to travel on its services. If its reputation improves then more people might travel for leisure reasons, increasing its revenue.
   - Its customers may become more satisfied and, as a result, the government might agree to give it a new franchise in two years’ time. This would help to make the company’s future more secure.

3. Answers may include the following:
   - One danger is that the company may suffer a reduction in revenue. Commuters may decide to find other ways of getting to work, such as driving at least part of the way. If this happens, the company may suffer a fall in revenue. This could be very damaging as its profits are already low.
   - The government may decide against allowing Pagan plc to continue to provide rail services in this region. If customers are very unhappy with the level of service received they may protest and the government would be under pressure to give the franchise to a different company. Pagan plc may not survive this.

4. Answers may include the following:
   - The company might be better focusing on what causes the delays to the trains and the cancellations as providing a good product that meets customers’ needs is a vital part of giving good customer service. Commuters need to arrive at work on time, and improving ICT will not help with this.
   - Part of the problem with Pagan plc’s customer service is that it does not communicate with its customers effectively. Using social media, such
as Twitter, would enable it to communicate with passengers and advise them of delays and the causes of them.

It would seem to be a good move for the company to do this. It will not solve the entire problem, but will at least ensure customers have up-to-date information. This is not a costly move and it is important, given the company’s low profits.

4.1 Organisational structures

1 Answers may include the following:
   - Email
   - Intranet
   - Video-conferencing
   - Meetings.

2 Answers may include the following:
   - Delegation takes place when authority is passed down an organisational structure from senior to junior employees.
   - The company is growing quickly and this will mean that spans of control might become wider and senior managers even busier. Delegation will help to overcome this.
   - The company has decentralised and has moved away from using a ‘standard’ menu in each of its restaurants, allowing local restaurant managers to take on more responsibility for menus. Delegation will be necessary to support these changes and to ensure that they work.

3 Answers may include the following:
   - A tall organisational structure has many levels of hierarchy and narrow spans of control.
   - The company’s restaurants are located across the UK which would make it difficult for senior managers to supervise the work of subordinates closely and to communicate regularly with them as part of their management.
   - Tall organisational structures are associated with close supervision and control by managers and little freedom for employees to make decisions. This management style would not fit with the chief executive’s approach of allowing employees as much freedom as possible to make decisions.

4 Answers may include the following:
   - Decentralisation allows employees working in all areas of the business to take decisions.

   The company’s restaurant managers have wanted to make use of products that are available locally and not to follow a standard menu. Decentralisation will allow restaurant managers to take important decisions such as designing menus that reflect local customers’ tastes and the supplies that can be bought locally.

   The company’s owners want its customers to have similar experiences in each of its restaurants. This will become more difficult if each restaurant manager makes individual decisions about an important issue such as the menu.

   It is probably a good decision, so long as all managers work to the same guidelines. The restaurant is forecast to grow further and it will be more difficult for a few managers to make all the decisions if this happens.

4.2 Recruitment and selection of employees

1 Answers may include the following:
   - Job description
   - Person specification
   - Job advert.

2 Answers may include the following:
   - Zia is a young mother and may have to look after her children when they are not at school or nursery. Working part-time allows her to do this.
   - Zia is content to work part-time at the moment. In the future she hopes for full-time work and promotion. Working part-time now allows her to gain skills and experience.

3 Answers may include the following:
   - The company already has problems with retention. If it can improve its recruitment and selection process, this might help the company to appoint suitable people, who may be less likely to leave.
   - The company has suffered problems with the quality of its clothing. If it can employ more suitable and skilled employees it may be able to produce clothing that meets the needs of its customers more fully.

4 Answers may include the following:
   - External recruitment involves filling a job vacancy with any suitable person not already employed by the business.
   - Charm Ltd is growing quickly and has already lost a number of talented employees. Many only stay a year or two. There may not be
enough talented employees within the business to choose from, so it will be necessary to use external recruitment.

- Using internal recruitment may be a good idea as it will provide some opportunities for promotion for employees already working at Charm Ltd. This might help to improve the company’s retention of employees.
- If Mitch thinks that the company appoints the ‘wrong’ people and that the company needs new ideas, then external recruitment is the correct decision. This will help to overcome both these issues – if the ‘right’ people are appointed this time!

4.3 Motivating employees

1 Answers may include the following:
   - Profit sharing
   - Piece rate
   - Commission (for some employees)
   - Overtime.

2 Answers may include the following:
   - Raul might offer more training to his employees to enable them to carry out more complex tasks at work. This might make them feel valued and improve motivation.
   - Raul could consider offering fringe benefits. Employees might receive subsidised meals at work or be able to buy the company’s sofas and chairs with significant discounts.

3 Answers may include the following:
   - The company has low levels of employee retention as many do not stay long with the company. Improving the motivation levels of the workforce would help to persuade employees to stay. This would avoid the need to recruit new employees regularly and would reduce the need for training.
   - Improving the motivation levels of the workforce should provide financial benefits for the business because recruitment and training costs would be lower as fewer new employees would be hired. This may mean that shareholders might get the higher profits they want.

4 Answers may include the following:
   - The company is profitable and its employees are paid a straight hourly rate, which is lower than that paid by another local business. Raul could think about offering another form of payment to add to the wages the employees already receive. A profit-sharing scheme may work in these circumstances.
   - The company’s employees may be bored. They do not make any decisions and carry out simple tasks while being closely supervised. Raul could consider changing his management style to give the employees more freedom at work. Using job enrichment to make the employees’ jobs more interesting and challenging might be a very effective way of helping to improve motivation levels.
   - The company’s shareholders are hoping for higher profits. Using financial methods of motivation is likely to reduce the profits of the company and displease the shareholders. Furthermore, the jobs carried out by the employees appear dull, which is possibly why many do not stay long. These are good reasons to recommend using non-financial methods of motivation.

4.4 Training

1 Induction training is the training given to an employee when he or she first starts work.

2 Answers may include the following:
   - Induction training makes it easier for new employees to understand the systems and approaches used at Benly Ltd. For example, some of the employees will need to use production technology and induction training will help with this.
   - Induction training helps to make the employees feel more secure as they are supported in the early days of their new jobs at Benly Ltd. The induction training is excellent and perhaps explains why few employees leave the company.

3 Answers may include the following:
   - The company’s employees enjoy working at Benly Ltd. Many of its employees are long-serving, partly because they receive training and feel valued by the company. This benefits the company because it keeps its experienced employees and does not have to spend money recruiting large numbers of people because employees leave.
   - Benly Ltd has a reputation for producing good quality products that meet the needs of consumers. In part this is a result of providing training for its employees. Having loyal and long-serving employees helps to maintain quality as employees are experienced.
Answers may include the following:
- The company has a number of skilled and highly experienced employees who would be able to provide on-the-job training for the new employees. As the company has a reputation for high quality products, these employees might be in a good position to provide the right training.
- The company wants to produce new products and to improve productivity levels. Its managers recognise that some new ideas are needed if it is to achieve these aims. Off-the-job training would offer opportunities to develop new ideas and approaches and not to just continue in the same ways.
- The company is recruiting shop-floor workers and managers. It could use on-the-job training for its shop-floor employees as much of the company’s work is excellent and it has a good reputation. Off-the-job training for the new managers might be a good way to bring new ideas and approaches into the company.

5.1 Identifying and understanding customers

1 Answers may include the following:
- Bread and milk
- Gas and electricity
- Petrol
- Housing – mortgage or rent.

2 Answers may include the following:
- Trump plc’s adult consumers will need product information about its high-technology toys. Without this they will not know if the toys will be suitable to meet their children’s needs.
- The technological toys sold by Trumps plc have sometimes needed to be repaired after being sold, in order to keep working. This means that the adult customers will have needed an after-sales service to be available.

3 Answers may include the following:
- Trumps plc manufactures products that are fashionable and it must understand the needs of its customers in order to develop the latest toys. Fashions can change and if the company is not producing the right toys, it will have difficulty attracting customers. As a result its sales may fall rather than continue to rise.
- Understanding its customers can help Trump plc to provide good value for money. If the company knows exactly what its customers want in terms of technology and fashion in terms of toys, it can meet these needs.

This means it will provide more benefits to customers, giving increased value for money and helping to increase sales.

4 Answers may include the following:
- A competitive business provides products with more benefits at lower prices than its rivals.
- Trumps plc faces competition from many competitors, some of whom sell at lower prices. These companies are successful and it may help Trumps plc to reduce its prices so that its products are even better value for money. This might help it to attract customers away from its rivals.
- The company has a reputation for producing products that are up to date and fashionable. This means that they offer many benefits to customers and the fact that sales have been rising steadily suggests that consumers are happy with Trump plc’s prices.
- Reducing prices would improve the value for money received by the company’s customers. However, the company only makes a small amount of profit and it may not be able to afford to reduce its prices. If it does it may not be able to provide products that meet the needs of its customers so fully. Trump plc should not reduce its prices.

5.2 Segmentation

1 Answers may include the following:
- It could measure the quantity of products sold.
- It could measure the value of sales.

2 Answers may include the following:
- The company could segment its market by gender. Men and women are unlikely to wear the same products. The company produces both perfumes and aftershaves which will be targeted at different market segments.
- It could segment its market by income. The company’s exclusive and high-priced products are targeted at consumers with high incomes. In contrast it produces cheaper products (using a different brand name) for those on lower incomes.

3 Answers may include the following:
- By producing a wider range of products aimed at different segments in the market, the company could expect to increase its sales. It is meeting the needs of more customers in the market by segmenting in this way. By satisfying these needs, the company will expect to attract more customers and to make more sales.
- The company’s profits may be higher as a result. Through segmentation it is identifying
customers who are willing to pay higher prices for more exclusive products. These sales could be very profitable. By selling cheaper products in large quantities, this may also add to its profits. Overall the effect on the company’s finances could be very positive.

5.3 The purpose and methods of market research

1 Answers may include the following:
- Questionnaires
- Surveys
- Focus groups.

2 Market share = \( \frac{\text{£690 million}}{\text{£25,102 million}} \times 100 = 2.75\% \)

3 Answers may include the following:
- The company needs to identify what is happening to the level of demand for hotels in Edinburgh. It has grown recently, but will this continue? The company could use primary market research methods to discover this.
- The company will be facing more competitors in the hotel market in Edinburgh. There were 42 companies in the market last year, but next year this is expected to rise to 51. Kvos Ltd needs to investigate this so that it can understand what the more successful of these companies are doing and whether it could do something similar. This would help it to judge whether buying the hotel would be a good decision.

4 Answers may include the following:
- Primary market research uses data gathered for the first time, while secondary market research uses data that has been gathered already.
- The company is under pressure to make a quick decision as other businesses are interested in buying the hotel. This could mean that it would make sense to use secondary methods of market research. These can be conducted quickly as they rely on existing information, rather than collecting new data.
- The hotel market in Edinburgh is changing in two important ways. New hotel companies are entering the market and consumers’ needs are changing. This means that secondary research is likely to be out of date and may not reflect what consumers want. This suggests Kvos Ltd should use primary methods of market research to find out what is happening in the market now.

5.4 Elements of the marketing mix

1 A distribution channel describes how the ownership of a product passes from the producer to the final customer.

2 Answers may include the following:
- The Roman Blend range had suffered from falling sales and may be approaching the decline stage of its product life cycle. Using an extension strategy might help to stop sales falling too quickly or too much.
- The company is planning to launch its new cold press coffee next year. Keeping its sales of Roman Blend as high as possible for as long as possible is important until this new product enters the market.

3 Answers may include the following:
- The company has generated high profits for many years from selling its Roman Blend range of coffee. This would provide it with the funds needed to pay for heavy advertising for its new cold press coffee.
- GC plc wants to replace a popular coffee product which has achieved very high sales. The new product is unique and offers plenty of benefits (sweeter; more recipes) to coffee drinkers. A high level of promotion will be necessary to inform coffee drinkers of these benefits.

4 Answers may include the following:
- Price skimming involves setting a high price for a product when it first enters the market. Cost plus pricing is where products are priced by covering the cost of the product to the retailer and adding a percentage on top.
- Using cost-plus pricing will ensure that the company makes a profit from selling each cold press coffee product. However, it is possible the company could have charged higher prices for the cold press coffee product as coffee drinkers may have valued this new product highly.
- Price skimming could be an appropriate pricing method as this is a new product with many benefits. This product will be appealing to some coffee drinkers, especially as they will not be able to buy the same coffee products elsewhere.
• Price skimming may be the better choice because of the benefits offered by the coffee and the investment of millions of pounds in the products. It will give the chance of higher profits as prices can be set very high and reduced when competitors launch similar products.

6.1 Sources of finance

1 Interest is a payment made in order to borrow money; paying it means that a business pays back more than it borrows.

2 Answers may include the following:
  • Using sale and leaseback means that the company would no longer own the offices and would have to pay for a lease if it wanted to continue using them. This would not improve its profits.
  • The company cannot always pay its existing bills without using its overdraft. Paying for a lease would add to these problems.

3 Answers may include the following:
  • Advantage: The company is sometimes short of cash to pay its bills. An overdraft is an effective means of dealing with this as it is flexible and can be used when necessary.
  • Disadvantage: An overdraft is an expensive way to borrow money. Although the company is profitable, making regular use of its overdraft will have reduced its profits. It may have been better to find a cheaper source of finance.

4 Answers may include the following:
  (a) A share issue takes place when a company sells shares to people, giving them part ownership of the business in return for payment. Mortgages are loans from banks and building societies that are used to buy land and buildings such as offices and shops. The company could issue new shares to finance the purchase of the land. This would be easier as it is a public limited company and it could sell its shares on the Stock Exchange. The company is popular with shareholders as it pays good dividends, which might mean that its new shares would be attractive to shareholders. This might make it easier to raise the finance that is needed.
  (b) A mortgage is possible as the finance is needed to buy land. The land could be used as collateral for the mortgage, although the company would have to pay interest on the loan. As the mortgage would be for £9.5 million, the amount of interest paid would be quite large.

The new share offer seems more attractive for the business as it would avoid the need to pay interest. The company could share its profits with its shareholders, but this would only happen when, and if, it made a profit.

6.2 Cash flow

1 The net cash flow shows the balance of cash flowing in and out of the business over the month.

2

<table>
<thead>
<tr>
<th></th>
<th>Next month</th>
<th>The month after next</th>
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<tbody>
<tr>
<td>Opening balance</td>
<td>(1,500)</td>
<td>(3,075)</td>
</tr>
<tr>
<td>Closing balance</td>
<td>(3,075)</td>
<td>(5,076)</td>
</tr>
</tbody>
</table>

• Award two marks for each of the closing balances as these have to involve a calculation.
• The opening balance should be awarded one mark.
• Award full marks for later answers if they are correct on the basis of earlier errors.

3 Answers may include the following:
  • The closing balance for the business is negative in both months. This means that some of the business’s cash outflows are taking place before the equivalent inflows. The business may have difficulties paying its bills as they become due. The business may be at risk of failing.
  • The closing balance has a larger negative balance in the second month. The business could be facing increasing cash-flow problems. This increases the risk of the business not being able to pay its bills some time in future, especially if this trend continues.

4 Answers may include the following:
  • An overdraft is a flexible loan which the business can use, whenever necessary, up to an agreed limit.
  • An overdraft is a possibility as Phil has a good record with his bank of repaying loans. However, his business’s cash position has been getting worse for nine months and an overdraft is better suited to a short-term problem. This could be a very expensive choice.
  • Increasing his cash inflows by raising the business’s prices could improve Phil’s cash position by having larger inflows and the same outflows. This could be effective as his prices are very low and so his customers may not stop buying his products even if their price increases.
Increasing cash inflows by raising prices seems to be a better option. An overdraft is expensive and not really suitable for use in the long term when the business is only making a very small profit. This is the recommended option.

6.3 Financial terms and calculations

1 Answers to be two of the following:
   • Fixed cost line
   • Variable cost line
   • Total cost line
   • Revenue line.

2 Average annual profit = £6,000
   Average rate of return = £1,200
                     5
                     £10,000
                    = 12%

3 Answers may include the following:
   • Angie could increase her prices, especially as she thinks that they are probably too low. This would increase her business’s revenue if she did not lose too many sales. Provided her costs do not increase she should receive higher profits.
   • Angie doesn’t open her café at the weekends. This could be a reason why her profits are low as a large number of people may visit the town at the weekends. If she opened on Saturdays and Sundays she might receive more revenue and more profits.

4 Answers may include the following:
   • Angie knows that she will need a bank loan. If the bank knows that she has carried out a break-even analysis it may be more willing to lend her the money for the investment. This is because it may be more confident that the expanded café will make a profit in the future and be able to repay the loan.
   • The café may be larger but that doesn’t mean that its sales will rise. Angie ‘hopes’ that sales will increase, but this may not happen. It is very unlikely to happen if she does not open the café at the weekends.
   • Break-even analysis might help Angie to decide whether or not to make this investment. It could show how many customers she will need to make a profit from the larger café. However, it doesn’t mean that she will make a profit. She should also carry out some market research to find out how many people might visit the enlarged café – especially if it opens at weekends.

6.4 Analysing the financial performance of a business

1 Answers to be two of the following:
   • Non-current assets
   • Current assets
   • Current liabilities
   • Non-current liabilities.

2 Gross profit margin = \[\frac{144,900,000}{804,800,000} \times 100 = 18\%\]

   Net profit margin = \[\frac{80,500,000}{804,800,000} \times 100 = 10\%\]

3 Answers may include the following:
   • The data only refers to the last year of trading for the two companies. It would be better to have the financial performance of each company over a number of years so that trends could be analysed.
   • This is an industry with many other businesses because both companies face a lot of competition. It would be very useful to compare their financial performance over time with their major rivals.

4 Answers may include the following:
   • HJK plc is a much larger company and achieved a much higher level of sales – more than 30 times that recorded by Brett plc. Its profits are also much higher; its net profit is over £80 million compared to under £3 million for Brett plc.
   • Brett plc is smaller and achieved fewer sales and lower profits. However, the results of the financial ratios show that the company’s profit margins were both higher than those of HJK plc. Its GPM was 2% higher and its NPM 1% higher. On this basis its financial performance is better.
   • It is probably true to say that Brett plc performed better due to its superior profit margin figures. However, there is very limited information on which to make a judgement of this type.