1 Business activity (page 108)

(a) Before taking on a partner, Carolyn had been a sole trader.
(b) When businesses, such as Carolyn’s, have unlimited liability the owners are responsible for the debts of the business. If the business fails, Carolyn must pay what the business owes even if it means that she must sell her personal possessions to obtain the money.
(c) Three pieces of information that banks would consider to be important in a business plan are:
   (i) details about any market research
   (ii) financial information such as a cash-flow forecast
   (iii) the number and type of workers expected to be employed.
(d) The percentage of business closures to start-ups = 1200 / 1800 × 100 = 67%
(e) One characteristic of being an entrepreneur is that they take risks. The business may be a success and produce profits for the owner but the business may fail and the value of investments and debts will be lost.
   Entrepreneurs also have to be decision makers. They have decided to set up the business and will have to make decisions such as who to employ, where to locate or the prices to charge.
(f) If Caroline takes on a partner she and the business will benefit from the additional capital the partner may bring into the business. This will help the business to grow. Also, the partner will bring additional skills and expertise into the business so diversification into other areas of sales may be possible. The new co-owner will also offer additional thought to the decision making of the business.
   However, the partnership will still have unlimited liability for both owners. Carolyn and her partner may disagree on how the business should operate even after taking time to discuss issues. Without a partner, Carolyn had been able to make quick decisions. Further arguments may arise if one partner does not work as hard as the other, even though profits may be shared equally.
   Overall, if Carolyn wants to expand her business and she lacks the necessary finance she should take on the partner even if this causes some problems.

2 Influences on business (page 108)

(a) The IT packages that businesses could introduce to improve their administration are:
   (i) completing their accounts – spreadsheet
   (ii) finding customers’ telephone numbers – database
   (iii) contacting customers to remind them to pay their accounts – word processor.
(b) (i) One legal responsibility that Patio Paths Co Ltd has to its customers is that the product provided is as described. The materials used in constructing driveways must be as shown in their advertising so that the work reaches the expected quality.
   (ii) One legal responsibility that Patio Paths Co Ltd has to its workers is that the business creates a safe working environment so that the risks to health and safety of workers are minimised.
(c) The percentage of workers employed in building driveways is:
   500 – 100 / 500 × 100 = 400 / 500 × 100 = 80%
(d) (i) A cut in income tax rates paid by customers means that they will have more to spend and so are more likely to want new driveways.
   (ii) An increase in the rate of interest paid on bank loans will increase the costs of the business.
(e) Businesses have spent money on developing designs and processes, so they need to be protected from those who copy the ideas without paying the development costs.
(f) By setting up branches in other countries, Patio Paths Co Ltd will become a multinational company. This will provide the business with a much greater market for its products, perhaps leading to greater profits. Becoming a multinational company means that the business has grown and can take advantage of economies of scale, for example in the bulk buying of materials. Further cost savings can be made by being able to employ cheaper labour in some countries.
   However, setting up branches abroad will cause some problems for the business. The greater distances involved mean that the business becomes more difficult to operate with communications being an issue. Also, the business will have to conform to different
laws in other countries regarding the quality of production and the treatment of workers. Overall, Patio Paths Co Ltd should be discouraged from setting up abroad as the cost savings from scale might be reduced by the management costs and legal requirements in other countries.

3 Business operations (page 109)

(a) Packers Ltd will keep stock in the form of:
   (i) materials
   (ii) finished products.
(b) Packers Ltd is likely to use batch production when producing its goods. Job production would not be used as large quantities of similar goods are being produced. However, customers demand a variety of sizes, so the business needs to produce batches of these sizes. Mass production would not be suitable.
(c) During the procurement process Packers Ltd will need to know:
   (i) the price of materials
   (ii) the quality of resources
   (iii) the reputation of suppliers.
(d) The percentage not totally satisfied is:
   \[42 + 24 \div 134 + 42 \times 100 = 66 \div 200 \times 100 = 33\%\]
(e) Just in time involves businesses being supplied with the materials needed for production when required. They are delivered on time, at the right location, by the supplier. This means that warehouse facilities are not required by Packers Ltd as the supplier of the materials is responsible for storage. Materials will be in a good condition and free of damage. If not, they can easily be returned to the supplier so there is little waste.
   However, deliveries will be in smaller quantities so there is less chance of having discounts for bulk deliveries. Also, there may be delays in delivery due to weather or traffic conditions, so Packers Ltd may run out of resources and may have to cease production.
   Overall, it may be a good idea for Packers Ltd to adopt just in time as the savings in warehousing costs and the reduced wastage may more than offset the loss of discounts for buying in smaller quantities.

4 Finance (page 109)

(a) Turnover is another term for sales revenue. It is the amount of money taken in by a business over a certain time.
(b) Net profit margin = net profit / turnover \times 100
   = 1.7 / 6.8 \times 100
   = 25\%
(c) EMQ plc could finance the new machinery by:
   (i) having a bank loan. The bank will lend large sums of money for long terms if it is confident that EMQ plc will repay the loan. Interest is paid on the loan. The business may have to use collateral security to support the loan: if the loan is not repaid, the bank could take control of business assets.
   (ii) selling new shares. The shareholders will contribute money to the business and will have some say at the Annual General Meeting on how the business is run. The shareholders will be paid a share of the profits in the form of a dividend.
   (d) (i) Cash flow is the amount of money coming into the business set against the amount leaving the business.
   (ii) Cash-flow forecasts are important to (a) the managers as they show the predicted effects on cash levels of the business decisions they take and for (b) the workers they show when it is estimated that cash may be insufficient to pay their wages.
   (e) The directors of EMQ plc will attempt to increase profits with policies to increase revenues and/or decrease costs. Revenues may be increased with measures to promote the products sold by the business such as by advertising. If this is effective, sales and revenues will rise. However, advertising may be expensive, so costs will increase, and the advertisements may be badly focused, so sales do not rise by anticipated amounts. Revenues could be increased by increasing prices, but this may have a poor effect on sales so total revenue could fall.
   On the cost side, businesses could cut their costs by using cheaper materials or by employing fewer workers. However, each may affect sales as the quality of products or the standard of service may fall, thereby reducing revenue.
   Businesses need to be aware of the nature of their markets in deciding policies on increasing profits. A balance is needed between measures to increase revenue and to cut costs.

5 Marketing (page 110)

(a) Stages Theatre could use:
   (i) Primary or field research. This involves asking possible customers about their views on the theatre using questionnaires and surveys face to face, on the telephone or online. This is original research.
   (ii) Secondary or desk research. This involves using existing data produced by other theatres or the government, found in newspapers, reports and websites.
(b) USP is a way of differentiating one product from similar products. Customers may appreciate the differences and may be willing to pay higher prices. The USP of Stages Theatre is that it is a co-operative owned by theatre goers.

c) The pricing strategies Stages Theatre could use are:

(i) Cost-plus pricing. The management will add a small percentage to their costs to earn a minimal profit.

(ii) Price discrimination. This involves charging different market segments different prices. Older customers may be the only ones available to watch afternoon performances. To encourage them, they will be charged lower prices.

d) The brand is important to Stages Theatre as it differentiates the theatre from other businesses selling similar services. The theatre can build up a loyalty for the brand that cannot be used by other businesses.

e) A variety of media will be available to Stages Theatre for it to promote itself and to increase sales. As this is a local business, the use of national media would not be appropriate. Local newspapers might be one way in which Stages Theatre might advertise itself. It will have sufficient space to provide information about programmes, times and prices. Possible customers will be able to keep these for reference to be able to contact the theatre if necessary. However, sales of local newspapers are in decline as people use the internet to obtain news and information. A cheaper printed alternative would involve the use of flyers that can be distributed close to the theatre and kept for reference. However, many people will take these and discard them without taking notice. Printed media only allow customers to read information. Local radio as a means of advertising allows the use of sound to promote products. Advertisements for Stages Theatre can be played when theatre features are on the radio so interested potential customers may be listening. However, for many the radio is just in the background, so advertisements may be missed. Businesses looking for advertising media will need to consider the cost of the advertisements, the amount of information and the range of people likely to be seeing or hearing them in the market to be covered. In the case of Stages Theatre, local newspapers may be the most suitable advertising media.

6 Human resources (page 110)

(a) (i) The job description sets out the tasks the recruit will be expected to perform. It is important as it gives an opportunity to describe the job so that people thinking about applying know what they will be doing if they get the job.

(ii) References are written by people who know the applicant. The referee can describe what the applicant is like with regards to personality, punctuality and so on. It is important as someone other than the applicant is writing about their suitability for the job.

(b) A well-motivated workforce is more likely to work as hard as it can on behalf of the business. This means that more products are likely to be produced, to the highest standards.

c) Two non-financial methods Iota Technologies Ltd could use to motivate its workers are:

(i) Job enlargement, which involves giving workers extra tasks within the workplace. These will reduce the monotony of doing the same job all the time and will motivate the workers.

(ii) Job enrichment, which involves giving workers more interesting and complicated tasks. These are done in addition to the work already being done. These challenging tasks will encourage the worker to be more aware of the complexities of the job and will add to the worker’s motivation.

d) One advantage of moving from a tall organisational structure to a flatter one is that there are fewer managers required so costs will be saved by the business.

e) On-the-job training is provided within the workplace. Businesses favour such a form of training as it is easy to organise and can be provided as needed to meet relevant and specific requirements within the workplace. As it is usually given by senior experienced workers, it is relatively cheap to provide, unlike off-the-job training where more expensive professional trainers are used. However, the training given may not be effective as it depends on the limited knowledge and skills of other workers. These may have poor communication and teaching skills, so they find it difficult to instruct trainees. Added to this, bad working practices may be passed on by workers not up to date with current practices. This should not be the case for professional off-the-job trainers. On-the-job training can save the business money but it should not be the only form of training given. Businesses should also use effective up-to-date off-the-job training.