Unit 1 The business environment

Section A
1 (d)
2 (c)
3 (b)
4 (a)
5 (d)

Section B
1 Name of business: Adam’s Farm
   Activity of business: Dairy farming
   Factor 1: treating animals well, allowing them access to the outdoors as much as possible (1 mark).
   Factor 2: sustainability – energy-efficient appliances are used wherever possible (1 mark).
2 Name of business: Kevin’s Big Eat
   Activity of business: Restaurant
   Way 1: Use wet floor sign (1 mark) to prevent staff and customers slipping and injuring themselves (1 mark).
   Way 2: Make sure that emergency exits are not blocked (1 mark) so that staff and customers can escape in case of a fire (1 mark).
3 Name of business: A Snip Above
   Activity of business: Hairdresser
   Advantage: A Snip Above has introduced virtual imaging to show their clients what they would look like in a chosen style, which has greatly increased customer satisfaction (1 mark). This has led to repeat business (1 mark), which increased its market share (1 mark).
   Disadvantage: New technology is expensive (1 mark). This increases business costs (1 mark), which might lead to a poor cash flow (1 mark).

Section C
1 Benefit 1 – be his own boss (1 mark)
   Benefit 2 – can keep all profits (1 mark)
2 Competition could be a reason for the falling revenue (knowledge). Discount supermarkets tend to offer low prices to attract customers (understanding). Fewer customers going to Andy’s Bakery would lead to lower sales (analysis).
   The lack of free parking facilities would make Andy’s Bakery less attractive to customers (knowledge). Furthermore, discount supermarkets usually offer free parking which gives convenience to customers (understanding). This would take more customers away from Andy’s Bakery, leading to lower market share and revenue (analysis).
   Due to the weak sterling, ingredients such as flour have become more expensive (knowledge). Andy’s Bakery either absorbs the higher cost or passes it on to customers by raising its selling price (understanding). The latter option would lead to falling revenue as customers hunt for cheaper breads elsewhere (analysis).
   The most important factor is likely to be the growth of discount supermarkets. Andy’s Bakery does not have the economies of scale to lower its prices to compete (evaluation). As inflation increases, consumers have less money to spend and would choose to shop at discount supermarkets instead of Andy’s Bakery if they can buy more with their money. Supermarkets also offer a one-stop-shop facility which a small independent bakery (context) cannot provide (evaluation).

Unit 2 Working in business

1 (a) Private (1 mark)
   (b) Benefit – be her own boss (1 mark). Drawback – heavy workload (1 mark).
2 (a) Profit = Revenue – Costs (1 mark)
   = £18,000 – £6,550 (1 mark)
   = £11,450 (1 mark)
   (b) Harriet could increase her revenue (1 mark) by raising her selling price (1 mark).
   She could spend less on stock (1 mark) by finding a cheaper supplier (1 mark).
3 (a) Harriet prefers cash because she gets paid instantly (1 mark); she can use the money to pay for her expenses straight away (1 mark).
   (b) One benefit of accepting card payments is safety (knowledge). Harriet does not have to worry about carrying a lot of cash with her when she is travelling from client to client (understanding).
   Another benefit is that time is saved because she does not have to go to the bank with the cash (understanding). This means she has more time to deal with other aspects of her business, improving her sales revenue (analysis).
Her customer service would also improve as her clients have more choice in terms of payment methods (understanding). More satisfied customers may lead to more repeat business and sales (analysis).

However, one drawback of accepting card payments is the cost (knowledge). She will have to pay the credit card company a percentage of her sales, thus reducing her profits (analysis). Another drawback is the inconvenience of carrying a card payment machine with her when she is visiting her clients (understanding). This may slow down her service, leading to lower sales revenue (analysis).

On balance I would suggest that Harriet accept card payments because this improves her customer service (evaluation). She is offering a personal service (context) – the more choice she offers her clients, the more sales she will potentially make, ensuring the long-term survival of her business (evaluation).

(b) Checking for errors on the invoice ensures that customers are charged the correct price (knowledge). This is important because mistakes can lead to loss of trust, resulting in a loss of sales (analysis).

Checking also ensures that nothing is omitted (knowledge). This is important because if customers are not charged for an item then profit will suffer (analysis).

It is also important to check the invoice before sending to avoid having to send it again (knowledge). Resending the invoice is a waste of time, as well as leading to a delay in the receipt of payments which could cause cash flow problems (analysis).

Unit 3 Business decisions

1 (a) Businesses in the tertiary sector provide services (1 mark); they do not turn raw materials into end products (1 mark).

(b) To increase turnover by 15 per cent over the next two years (1 mark).

(c) One advantage of operating as a private limited company is having limited liability (1 mark). This protects shareholders’ personal possessions (1 mark), which encourages investments into the business (1 mark).

One disadvantage of operating as a private limited company is more red tape (1 mark). There are more complex, time-consuming accounting and administration requirements (1 mark) which could be costly to a business (1 mark).

2 (a) Workforce planning is the process of making sure there is the right number of employees with the right skills (1 mark) to deliver a business’s objectives (1 mark).

(b) Labour turnover may rise (1 mark) because employees are not happy about the changes brought about by the expansion plan (1 mark).

(c) One reason is to identify skills shortages (1 mark) so that training can be organised (1 mark).

It is important to identify the skills and knowledge of the current workforce (1 mark) before embarking on a new project (1 mark).

3 (a) £20,000 + (£25,000/£30,000 × 12) (1 mark)

= 1 year + 10 months = 1 year 10 months (1 mark)

(b) Total net cash flows = £820,000 (1 mark)

Average net cash flow = £820,000/5 = £164,000 (1 mark)

ARR = £164,000/£260,000 × 100 = 63% (1 mark)

(c) The Boston Matrix offers a simple, visual tool for a business to analyse its product portfolio (knowledge). It shows the market position of each product (understanding) allowing a business to devise strategies to manage its product portfolio effectively (analysis).

By categorising each product as dogs, cash cows, stars and problem child (knowledge), a business could identify appropriate marketing strategies to suit each category (understanding) to improve the overall sales revenue (analysis).

The matrix, however, is simplistic in nature (knowledge). Having a high market share does not necessarily mean high profitability (understanding), so focusing on this might lead to the wrong decisions being made (analysis).

Other factors such as barriers to entry, consumer trends, ethical issues, etc. should be taken into account when making strategic decisions (understanding). Focusing on market share and market growth alone will not guarantee the long-term survival of a business (analysis).
The Boston Matrix can be useful to Oliver’s Coach Travels if it can classify the different destinations that it offers into dogs, cash cows, stars and problem child so that appropriate marketing strategies can be devised (evaluation). Unpopular destinations classified as dogs could be dropped or the 4Ps adjusted to stimulate growth. Similarly, the sales of destinations classified as problem child could be stimulated with lower prices to increase market share (evaluation).

4 The cost of each option should be considered when choosing between options (knowledge). Option 1 appears to be a better option because it is a lot cheaper than option 2 (understanding) and could be funded from reserves. The payback period is also shorter (understanding). The level of risk for option 1 is therefore low, meaning implementing it has a higher chance of success (analysis).

Furthermore, Oliver’s Coach Travels has already provided local coach trips for many years so it does not have to make many changes to its existing services (understanding). Apart from modernising its advertising methods, the business can continue to focus on building on its success (analysis).

However, I think Oliver’s Coach Travels should consider option 2, which although requiring a higher capital outlay (understanding) is predicted to bring in significantly more sales revenue than option 1 (understanding). A bank loan would be required which increases risk for the business (analysis).

I recommend Option 2 because although it requires a much higher capital outlay (context), it is forecast to bring in more revenue in the long term (evaluation). With millennials predicted to become the largest demographic, Oliver’s Coach Travels cannot afford to ignore the spending power of this group of consumers (evaluation).

Unit 15 Change management

1 (a) One internal driver of change is budgetary (1 mark). Costs need to be reduced (1 mark) in order for the business to make sufficient profit (1 mark).

One external driver of change is competition (1 mark). This is a change in the number of firms providing similar services (1 mark). Zoomad Ltd needs to respond to increased competition in order to survive (1 mark).

(b) Some of the staff may not want to change their job role (knowledge) and may quit their jobs (understanding), increasing labour turnover (analysis). Others may be willing to work in another team but be fearful of the change (knowledge). This may lead to more job-related stress (understanding) and higher levels of absenteeism, at least in the short term (analysis).

Some staff may not agree with management that fringe benefits such as free refreshments and lunches should be stopped (knowledge), leading to lower morale (understanding). This may reduce productivity (analysis).

Reducing overtime may lead to resentment due to economic implications (knowledge). Resentment can often lead to low staff morale (understanding) which could affect the quality of their work, leading to poor customer service (analysis).

Staff resentment is likely to be high, especially amongst those who have been working for the company for a number of years. This barrier to change is likely to have the greatest impact on Zoomad Ltd if not managed correctly because experienced employees could easily find a job with a competitor due to the growing industry. Without these experienced staff the standards of service will suffer, ultimately losing more sales and market share (evaluation).

(c) Zoomad Ltd first of all needs to examine the hard Ss that currently exist in the company to see whether they are consistent with the shared value (knowledge). Do the current structure and systems support the strategy of change (understanding)? It is important to identify changes in the hard Ss necessary to achieve the new shared vision (analysis).

The next step is to examine the current soft Ss to see whether they support the hard Ss (knowledge). Identify and implement the changes in the soft Ss so that they support the hard Ss (understanding). The seven Ss need to be aligned and fine-tuned until the desired balance is achieved (analysis).

Changing one S will impact on the alignment of all the Ss (knowledge). This means that the impact of changing one S has to be analysed and adjustments made to the other Ss (understanding). This needs to be repeated regularly and could be a lengthy process (analysis).

I am using the McKinsey 7-S model because a change in strategy requires other elements or Ss to be changed such as the structure of the business. By moving staff across teams, the skills of the staff need to be considered and training provided if necessary. All the Ss need to be supporting one another for the new strategy to be achieved (evaluation).
2 (a) One possible financial impact of budget cuts is better cash flow (1 mark) because outgoings have been reduced (1 mark). One non-financial impact could be an increase in absenteeism (1 mark) because employees do not like the change at work (1 mark).

(b) The data shows that profit and overtime spend have improved (knowledge). This could be attributed to the restructuring process reducing the need for staff overtime (understanding). This reduction in cost has led to an increase in profit (analysis).

However, customers appear to be less happy with the service provided by staff (knowledge). The staff seem to have less time for their clients (knowledge). This could be due to the lower morale after the change (understanding). The staff who have been moved to a new team may need to be trained so that they have better knowledge of customer needs (understanding).

While this training will cost additional time and money (analysis) which in the short term will increase costs and decrease profitability (analysis), I believe it to be an important aspect of the change so that customers will remain with the company (evaluation). This is vitally important to Zoomad Ltd as it operates in a very competitive environment (evaluation).