

Now test yourself answers

Chapter 1

- Two from:
 - More potential customers
 - Opportunity for economies of scale
 - Can use mass media to advertise
- Two from:
 - Can charge higher prices
 - Higher profit margins
 - Less expensive to enter
- They will have lower fixed costs with no high street rents to pay, so they can survive with a lower contribution per unit.
- If a market change occurs which wipes out the small niche they are trading in, a niche marketer may face a collapse in their business.
- The growth in takeaway ordering apps, such as Just Eat and Uber Eats, means that far fewer customers are coming to collect their food, and instead drivers, eager for a very efficient service, will be waiting to deliver food.
- Older staff may be better suited to serving customers closer to their own age. They may also bring experience that younger staff may lack.
- The PESTLE factors: political, economic, social, technological, legal, environmental.
- Lower prices
 - Better quality
 - More innovation
- Market research
- Market-orientated
- Product-orientated
- Secondary
- Primary
- Quantitative
- Qualitative
- Small sample size
 - Poorly selected sample
- Websites gathering information
 - Social media gathering information
 - Databases to help analyse data
- Products and services can be designed to suit specific customers
 - Meeting customers' needs precisely allows a higher price to be charged
 - Promotional activity is easier to target
- by age, by gender, by region, by religion, by ethnicity, by income
- Gaps in a market or the ideal positioning for a product
- Lowest cost
 - Differentiation
- [[Answer to follow from author]]

- iPhone: design and functions
 - Nestlé's KitKat – the only bar you can easily split into two (or 4) to have a break
 - Nando's: trendiest among a certain age group
- Efficiency is likely to mean lowest cost, meaning the firm can charge lower prices than anyone else and still make a profit.
- Protects firms from the actions of competitors.
 - Allows prices to be raised without damaging demand very much.
- Successful advertising can increase consumers' perceived value of the product, often by attaching desirable images to the consumption of the product or service.

Chapter 2

- They are complementary, so demand for cars should rise.
- They are substitutes, so demand for Nikes should rise.
- Seven from:
 - Price
 - Changes in the prices of substitutes and complementary goods
 - Changes in consumer incomes
 - Fashions, tastes and preferences
 - Advertising and branding
 - Demographics
 - External shocks
 - Seasonality
- Arrival of a new competitor, such as Costa
 - Major local roadworks; new parking charges
- If costs of production rise, firms will supply less and vice versa, because increased costs of production mean less profit can be made.
- As the robot is likely to cut the costs of production, supply would increase.
- A bad harvest caused by the weather.
- To encourage the supply of green energy technologies
 - To create jobs
- Supply would increase.
- Commodities
- As price rises, fewer people are willing to buy.
- As price rises, firms are willing to supply more.
- Equilibrium
- Two from:
 - Changes in the prices of substitutes and complementary goods
 - Changes in consumer incomes
 - Fashions, tastes and preferences
 - Advertising and branding
 - Demographics

- vi) External shocks
- vii) Seasonality
- 15 Two from:
 - i) Change in costs of production
 - ii) Introduction of new technology
 - iii) Change in indirect taxes
 - iv) Government subsidies
 - v) External shocks
- 16 25p as a percentage of £2.50 = 10%
- 17 300,000 as a percentage of 1,500,000 = -20%
- 18 $-20\% / 10\% = -2$
- 19 Inelastic
- 20 Decreased
- 21 i) Product differentiation
 - ii) Availability of substitutes
 - iii) Branding and brand loyalty
- 22 i) Sales forecasting
 - ii) Deciding pricing strategy
- 23 Price elasticities change regularly, making it hard to use it to help predict the future.
- 24 1.5 per cent
- 25 -2
- 26 i) Who buys the product
 - ii) Whether it is an indulgence or a necessity
- 27 Inferior good
- 28 i) Income elasticity may have changed.
 - ii) The economic forecasts used to estimate a change in real incomes may be wrong.

Chapter 3

- 1 i) Aesthetics
 - ii) Function
 - iii) Economy of manufacture
- 2 Firms looking to use low cost as a point of competitive advantage
- 3 Three from:
 - i) Adds value
 - ii) Can reduce manufacturing costs
 - iii) Can provide a point of differentiation
 - iv) Improves brand image
 - v) May boost brand loyalty
- 4 Three from:
 - i) Sustainability
 - ii) Reuse
 - iii) Waste minimisation
 - iv) Recycling
- 5 Designers should design with only ethically sourced ingredients/components in mind.
- 6 i) Seasonal price promotions
 - ii) BOGOF
- 7 Increased customer loyalty can mean more predictable cash flows, while a respected brand can allow higher prices to be charged with the higher margins that result from this.
- 8 A problem with one product may affect all products carrying the corporate brand.
- 9 Three from:
 - i) Advertising
 - ii) Sponsorship
 - iii) Digital media
 - iv) USP
- 10 Digital media has allowed the spread of 'word of mouth' to become far wider and much faster.
- 11 Consumers will only pay a high price if the new product is unique, not a copy of an existing product.
- 12 A low-priced launch may devalue their brand in the eyes of consumers.
- 13 Cost per unit = 8p of variable costs plus $\text{£}24/600 = 4\text{p}$, so unit cost = 12p, add 200% = 36p selling price.
- 14 Unit cost
- 15 Low, or certainly no higher than their main rivals
- 16 With nothing to differentiate the product, pricing will need to be close to rivals.
- 17 If consumers cannot find a way to buy a product, they will not be able to achieve sales targets.
- 18 Producers sell to wholesalers who can then sell on to a wide range of retailers, allowing producers to get their product into many smaller retailers.
- 19 i) Benefit: Complete control over how their product is sold
 - ii) Drawback: Extra cost involved in running retail outlets
- 20 Small producers can now use direct channels of distribution that reach a very wide audience online via their own website or a platform such as eBay.
- 21 i) Introduction
 - ii) Growth
 - iii) Maturity
 - iv) Decline
- 22 Development
- 23 It is still a useful model for understanding what is likely to happen to sales of a business's products in the medium to long term, thus helpful in forecasting sales.
- 24 Without innovative new products a business is likely to find existing products will lose their differentiation as rivals release close substitutes, meaning that prices may need to be cut in order to compete.
- 25 i) Understanding the needs and wants of the market
 - ii) Creativity to solve problems
 - iii) Finding and committing the resources (money and people)
- 26 i) Problem child
 - ii) Rising star
 - iii) Cash cow
 - iv) Dog
- 27 i) Looks to the future
 - ii) Is achievable
 - iii) Is company-specific
- 28 Two from:
 - i) Offers control over promotion
 - ii) Gains wide distribution
 - iii) Can allow a firm to influence pricing in the market

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- 29 Two from:
- i) Allows a firm to charge higher prices
 - ii) Can meet consumer needs more closely
 - iii) May face less direct competition
- 30 While consumers make decisions based partly on emotion, business to business marketing relies simply on exactly what product can be delivered at the right price with the right level of reliability in terms of quality and timing.

Chapter 4

- 1 Staff are committed to a business that has shown commitment to them and are likely to take more care over their work as a result.
- 2 a) home-working
b) multi-skilling
c) temporary contracts
d) outsourcing
- 3 Three from:
- i) Multi-skilling
 - ii) Part-time and temporary working
 - iii) Flexible hours and home-working
 - iv) Outsourcing
 - v) Zero-hours contracts
- 4 Cash flow will be damaged in the short term as redundancy payments are made. In the long term, with lower costs, cash flow will improve.
- 5 Collective bargaining
- 6 Two from:
- i) Quicker and cheaper
 - ii) Promotion opportunities could motivate staff
 - iii) No need for induction training
 - iv) Better knowledge of applicants
- 7 Two from:
- i) A wider pool of applicants
 - ii) Brings in new ideas
 - iii) Prevents creating a vacancy elsewhere in the business
- 8 Interviewer bias or prejudice may affect the outcome.
- 9 Two from:
- i) Tailored to the company's own way of working
 - ii) No need to send staff out on expensive courses
 - iii) Instant advice can be given following an error
- 10 i) A wider range of methods can be learned
ii) Fewer distractions than at the workplace
- 11 All decision-making is kept at the very highest levels of the structure in a centralised organisation.
- 12 Matrix
- 13 Flat structures have wide spans of control, forcing managers to allow subordinates to make their own decisions, as they cannot closely supervise them all the time.
- 14 Tall structures have many layers, offering plenty of scope to be moved up to the next level.
- 15 i) Scope to show initiative: Maslow's self-actualisation or Herzberg's meaningful and interesting work
ii) Extent of delegation: Maslow's esteem or Herzberg's achievement
iii) Responsibility: Maslow's esteem or Herzberg's responsibility
iv) Receiving all information required to perform a job: Herzberg spoke of the need for direct communication as part of job enrichment and saw company policy as a hygiene factor.
v) Opportunities for promotion: Maslow's esteem needs and Herzberg's advancement
- 16 Taylor believed people worked to maximise their income. Therefore, people will work harder if working harder allows them to earn more money. Therefore, if a business wants an employee to work harder, they must ensure that the amount of work done is directly linked to the amount of pay the employee receives.
- 17 This should mean that even if extra pay is earned, the firm will have more products available to sell in order to generate a higher revenue, which can be used to cover higher wage costs.
- 18 Money
- 19 Human relations
- 20 i) Physical
ii) Safety
iii) Social
iv) Esteem
v) Self-actualisation
- 21 i) Hygiene: company policy, supervision, pay, interpersonal relations, working conditions
ii) Motivators: achievement, recognition, meaningful, interesting work, responsibility, advancement
- 22 Motivation means doing something because you want to do it (perhaps finding out more about Herzberg because you are fascinated by his theory), whereas movement is doing something to achieve a reward (perhaps your parents have offered you cash for grades) or to avoid a threat (will there be a phone call home if you don't hand in your homework?).
- 23 i) Performance-related pay
ii) Profit-sharing
iii) Possibly bonuses
- 24 i) Piecework
ii) Commission
iii) Bonus
- 25 i) Job enrichment
ii) Empowerment
iii) Delegation
- 26 Team-working
- 27 Staff who are being handed decision-making power may lack the experience necessary to make the right decisions without prior training.

- 28 With few staff, the entrepreneur, who naturally is likely to be making key decisions on what the business should be doing and how to get around problems, will be unlikely to afford to hire a manager whose focus would be on the detailed implementation of the leader's plans and ideas. Instead, one person will have to perform two significantly different functions.
- 29 a) Democratic (using management by objectives)
 b) Paternalistic
 c) Autocratic
 d) Laissez-faire

Chapter 5

- 1 i) Noticing that a certain type of business does not exist in the local area
 ii) Spotting local behaviour that suggests a need exists for a certain type of service
- 2 Many business opportunities arise from external changes: in the economy, technology, society or the housing market.
- 3 Following the 2008 crash, banks often see start-ups as particularly high-risk and low-return customers.
- 4 i) Measuring performance objectively
 ii) Stepping back from the day-to-day challenges to think strategically
 iii) An eye for detail
 iv) Loving what they do

5

Personal characteristics	Skills
Understands the market	Understands finance
Determined	Persuasive
Passionate	Problem-solver
Can cope with risk	Networking
Resilient	

- 6 Accepts risk as a fact of business life but only takes on sensible risks, where the rewards outweigh the risk.
- 7 Three from:
 i) Finance providers
 ii) Customers
 iii) Staff
 iv) Suppliers
- 8 i) Profit maximising
 ii) Profit satisficing
- 9 Maximising profit may mean ripping customers off, destroying a business's reputation.
- 10 Operating in an ethical way is likely to lead to extra costs.
- 11 So the whole business is aiming to achieve the same thing
- 12 Specific, Measurable, Achievable, Realistic, Time-bound
- 13 i) Survival
 ii) Profit maximisation
 iii) Sales maximisation

- iv) Market share
 v) Cost efficiency
 vi) Employee welfare
 vii) Customer satisfaction
 viii) Social objectives
- 14 i) Sole trader
 ii) Partnership
- 15 Share capital
- 16 £50,000
- 17 The sole trader will be aware that costly errors may end up costing them personally in the event of a disaster; a limited company protected from personal liability may be willing to cut corners.
- 18 Two from:
 i) Access to a tried-and-tested formula for business success
 ii) Support from the franchisor in providing materials and fixtures and fittings
 iii) Advice and training on all business functions
 iv) Possibility of a national advertising campaign from the franchisor
 v) A guaranteed local monopoly for that brand
 vi) Easier access to loans as banks recognise the lower risk involved in starting as a franchisee
- 19 Two from:
 i) The franchisee may feel frustrated at being unable to make decisions dictated by the franchisor.
 ii) There is likely to be an initial franchise fee to buy the licence (perhaps several hundred thousand pounds for the most popular franchised brands).
 iii) The franchisor will also expect royalties, a percentage of revenue.
- 20 The value of the next best option foregone when a business decision is made
- 21 The process of compromise between conflicting objectives when making a decision
- 22 The best way to ensure you always have the right size for customers is to buy and keep lots of stock. However, this ties up cash which is no longer available to pay bills until the stock is sold.
- 23 Not all profit is retained for use within the business and in the early stages of a business, there may not have been time to build up sufficient retained profit to finance growth.
- 24 i) Interest payments
 ii) Repayments of the original sum borrowed
- 25 Many entrepreneurs are successful because they are control freaks who keep an eye on absolutely everything happening in the business and make all the decisions. Passing decision-making power to others is therefore very hard for many.
- 26 Customers and/or shopfloor workers

Chapter 6

- 1 A start-up would not have had a chance to make any profit to retain.

- 2 Banks
- 3 i) Loans
ii) Overdrafts
- 4 Share capital
- 5 i) Starting up
ii) Growing
iii) Dealing with a cash flow problem
iv) Financing extra materials needed when a large order is received
- 6 Shareholders
- 7 i) Sole trader
ii) Partnership
- 8 Two from:
i) Peer-to-peer funding
ii) Crowdfunding
iii) Share capital
iv) Business angels
v) Venture capital
- 9 If a sole trader does not pay up, their own personal assets can be used to settle debts; this is not possible with a limited company.
- 10 i) Useful in attracting finance
ii) Helps to ensure the entrepreneur has carefully considered potential problems
iii) Gives a reference point to maintain a clear sense of direction
iv) Offers some quantitative targets to aim for
- 11 Monthly balance or net cash flow
- 12 Finance providers
- 13 The cash flow forecast
- 14 Usually by using an overdraft facility

Chapter 7

- 1 Production must ensure that enough products can be supplied to meet the demand that exists for a product. Without a sales forecast, a business will not be clear on how much demand will need to be satisfied.
- 2 Three from:
i) HR
ii) Production
iii) Cash flow forecast
iv) Profit forecasts
v) Budgets
- 3 i) Consumer trends
ii) Economic variables
iii) Actions of competitors
- 4 With more time to pass before the forecast becomes reality, there is more time for changes in the business environment to mess up the accuracy of the forecast by affecting sales.
- 5 $(30 \times £20 =) £600$ PLUS $(15 \times £50 =) £750$ EQUALS total revenue of £1,350
- 6 Down – a price cut will lead to a significant increase in sales volume, which will outweigh the impact of making less per unit.

- 7 i) Sales volume
ii) Sales value
- 8 Costs that do not change in relation to output
- 9 Costs that change in direct proportion to output
- 10 This helps to spread fixed costs over more units of output, reducing the fixed costs carried by each unit.
- 11 As these costs do NOT change with output, the fixed costs neither rise nor fall as output changes moving from left to right.
- 12 Even when no units are made or sold, fixed costs must still be paid, so even at output of zero, total costs will include all fixed costs, even though no variable costs need to be covered.
- 13 Selling price – which is, in fact, revenue per unit
- 14 Fixed costs / (selling price – variable cost per unit)
- 15 (Contribution per unit \times output) – fixed costs
- 16 i) Fixed costs
ii) Total costs
iii) Total revenue
- 17 Current output minus break-even output
- 18 The break-even would be lower.
- 19 The break-even point would be higher.
- 20 Three from:
i) To prevent over-spending
ii) To provide a yardstick against which to measure performance
iii) To allow spending power to be delegated
iv) To motivate staff in a department
- 21 i) Historical budgeting
ii) Zero-based budgeting
- 22 Adverse
- 23 Favourable

Chapter 8

- 1 Sales volume will rise by a greater proportion than the cut in price – meaning an increase in revenue. However, as sales volume rises, so will total variable costs, while additional fixed costs may be incurred (such as an advertising campaign to publicise the price cut), meaning that total costs may rise faster than revenue.
- 2 i) Gross profit
ii) Operating profit
iii) Profit for the year (net profit)
- 3 Profit is an absolute number – an amount of pounds – while profitability states profit as a percentage of sales revenue.
- 4 Statement of comprehensive income (profit and loss account)
- 5 A product sold on credit generates revenue when it is sold, but no cash inflow until the customer pays at the end of the credit period.
- 6 On a statement of financial position, otherwise known as a balance sheet

- 7 a) i) Current ratio
ii) Acid test ratio
b) i) Current ratio should be 1.5:1
ii) Acid test should be around 1:1
- 8 Three from:
i) Selling under-used fixed assets such as equipment or machinery
ii) Raising more share capital
iii) Increasing long-term borrowing through loans
iv) Postponing planned investments
- 9 Without managing working capital effectively, the firm may run out of cash.
- 10 Failure to understand customers (poor research) can lead to poor decisions within the marketing mix: unwanted product features, poor pricing decisions, etc. These are likely to mean sales are poor so cash inflows dry up.
- 11 If the business is unable to meet demand because it does not have sufficient stock, customers are likely to eventually go to rivals, leading to a fall in sales.
- 12 Three from:
i) Technological change
ii) Arrival of a new competitor
iii) Economic conditions
iv) The actions of banks
- 13 Good leaders are adept at anticipating and adapting to external changes.

Chapter 9

- 1 Labour intensive
- 2 Different types of bread may be made from different doughs, and need baking at different temperatures. It therefore makes sense to make a day's worth of each type of product, so each type of dough only needs to be made once and each batch can go in the oven together.
- 3 c) – in fact, flow production will only be economically viable if producing high volumes.
- 4 $40,000 / 200 = 200$ units per worker per hour
- 5 $250 \times 200 = 50,000$
- 6 To make 40,000, if each worker produces 250 units, only 160 workers ($40,000/250$) would be needed. Therefore, 40 staff could be made redundant.
- 7 Efficiency includes consideration of wastage, not just speed.
- 8 i) Age and quality of machinery
ii) Skills and experience of staff
iii) Level of employee motivation
- 9
$$\frac{\text{Output}}{\text{Number of workers}}$$
- 10
$$\frac{\text{current output}}{\text{maximum possible output}} \times 100$$
- 11 Fixed costs are spread over more units, therefore fixed cost per unit will be lower.
- 12 i) No room to take on extra orders
ii) No time for maintenance or training
- 13 i) Increase sales volume
ii) Reduce maximum capacity
- 14 a) Sales will be 1,000 units, so total contribution = $1,000 \times \text{£}250 = \text{£}250,000$. Deduct fixed costs to calculate profit: $\text{£}250,000 - \text{£}120,000 = \text{£}130,000$
b) Sales will be 600 units, so total contribution = $600 \times \text{£}250 = \text{£}150,000$. Deducting fixed costs gives a profit of: $\text{£}150,000 - \text{£}120,000 = \text{£}30,000$
- 15 Buffer stock (or minimum stock)
- 16 The horizontal gap between the re-order level and the delivery arriving shows the time taken to deliver; also known as lead time.
- 17 Three from:
i) Opportunity cost
ii) Cash flow problems
iii) Increased storage
iv) Increased financing costs
v) Increased wastage
- 18 Two from:
i) Lost customers
ii) Delays in production
iii) Lost reputation
- 19 With no buffer stock, production will halt if a delivery is delayed or contains faulty materials. This means the firm is highly dependent upon their supplier delivering high-quality supplies with absolute reliability.
- 20 If more is being produced, stock will be used more quickly, so the line representing the level of stock would fall more steeply if production levels increased.
- 21 Quality inspectors
- 22 Everybody – each employee is expected to take responsibility for their own quality and get things right first time.
- 23 Cell
- 24 Quality circles
- 25 Production staff themselves
- 26 i) Allows a price premium to be charged (often greater than the extra cost of producing high quality); if price can be pushed up more than cost per unit, profit margins will rise.
ii) Helps to gain distribution, with retailers confident they will not need to deal with product returns and refunds; gaining extra distribution helps to boost revenues.
iii) Creates brand loyalty and repeat purchase; may save on advertising spending, reducing the cost of marketing.
iv) Can help to build a brand reputation that spreads to other products within a firm's portfolio; may allow successful product launches, boosting revenues elsewhere in the portfolio, with relatively low product launch marketing costs.

Chapter 10

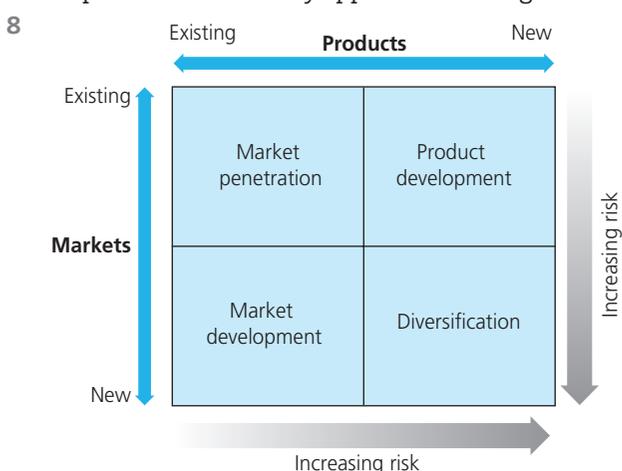
- 1 Prices are rising more slowly.
- 2 Consumers are likely to accept price increases without demand being damaged significantly.
- 3 SPICED
- 4 A weaker pound would allow the company to reduce their prices in foreign markets yet still earn the same number of pounds per unit, hopefully with increased sales leading to an increase in overall revenues in pounds.
- 5 Three from:
 - i) Demand falls as consumers' disposable incomes fall.
 - ii) Consumers are less willing to borrow to buy.
 - iii) Firms that owe money will face higher interest costs.
 - iv) Investment is harder to justify as keeping the money in the bank is more attractive.
- 6 They will suffer two clear negative impacts – firstly, costs will rise as the loans they have taken out will now be likely to carry higher interest payments; meanwhile, their revenues are likely to fall as fewer customers are likely to want to buy a new car, given that the majority of new cars purchased in the UK are financed with some kind of loan – making these deals more expensive.
- 7 Negative income elasticity means that demand for this product would rise if consumers' disposable income falls – which is likely to happen when more of their pay is taken as income tax.
- 8 Reduced corporation tax means more profit can be retained in the business – allowing more investment in new assets such as production equipment.
- 9 Luxury goods (those with a positive income elasticity greater than 1)
- 10 Product and price
- 11 Some employers, who treat employees well, welcome tighter laws that they already meet, as this will force rival companies who treat employees less well to improve their treatment – which will usually mean increased cost – this makes it easier for 'the good guys' to compete. Other employers will take the view that employee protection simply adds to their costs and is a negative for them.
- 12 i) Increased costs
ii) Less wastage
- 13 Two from:
 - i) Pricing
 - ii) Collusion
 - iii) Mergers
 - iv) Takeovers
- 14 The Health and Safety Executive
- 15 The employer
- 16 Oligopoly
- 17 Two from:
 - i) Higher prices
 - ii) Less innovation

- iii) Less choice
- iv) Poorer service

- 18 Three from:
 - i) Branding
 - ii) Product features
 - iii) Product design
 - iv) Advertising
 - v) Technical innovations
- 19 A feature of a market that makes it hard for new entrants to successfully enter

Chapter 11

- 1 Aims are general goals that the business is currently seeking to achieve, while mission is likely to be more influenced by the founder's beliefs, explaining why the business exists.
- 2 i) Purpose
ii) Strategy
iii) Values
iv) Standards and behaviours
- 3 A sense of mission held by all staff should help to motivate them to perform their jobs as well as possible and ensure that all staff are working in a co-ordinated way towards the same general goals.
- 4 Strategy is the broad plan for achieving objectives, which are the targets that the business sets itself.
- 5 i) Brand
ii) Design
iii) Quality
- 6 Even at a low selling price, where rivals barely cover costs, a firm with lower unit costs can still generate a viable profit per unit by keeping costs low.
- 7 a) Understanding the differing needs and wants of a new group of customers
b) Developing and successfully launching a new product that actually appeals to the target market



- 9 Risk increases as you move away from the top left of the matrix towards the highest risk, bottom right.
- 10 i) Top down
ii) Consultative
- 11 Three from:
 - i) Like-for-like
 - ii) Market share

- iii) Capacity utilisation
- iv) Unit cost
- v) Brand recognition
- vi) Staff turnover

12 Three from:

- i) Demography
- ii) New laws and regulations
- iii) Technological factors
- iv) Commodity prices
- v) Economic factors

13 Negatives – two from:

- i) Harder to access EU markets
- ii) Harder to fill lower-paid job vacancies without free movement of labour
- iii) More expensive imported materials due to the reduction in the value of the pound
- iv) Less foreign direct investment to the UK from foreign multinationals

Positives – two from:

- i) EU laws will need to be replaced, which may allow the UK Parliament to relax legal responsibilities placed on firms in areas such as employment protection or environmental standards.
- ii) A weaker pound may make exporting easier to non-EU markets for businesses who have previously only traded domestically.
- iii) UK businesses will find it easier to compete on price with more expensive foreign imports due to the exchange rate shift.

14 i) Political

- ii) Economic
- iii) Social
- iv) Technological
- v) Legal
- vi) Environmental

15 Opportunities and Threats

16 Three from:

- i) Patents and technical knowhow of staff
- ii) Strong brand identity and customer loyalty
- iii) High costs to customers of switching supplier
- iv) Substantial network infrastructure

17 As the external environment changes, so the forces are almost continually shifting in favour of or against a business. They should therefore ensure that these shifts are not overlooked before a strategic response can be planned.

18 Competitive rivalry = low

Threat of new entrants = low

Buying power of customers = low

Selling power of suppliers = low

Threat of substitutes = low

Chapter 12

- 1 i) Purchasing
- ii) Managerial
- iii) Technical

2 Three from:

- i) Increase profitability
- ii) Achieve economies of scale
- iii) Increase market power over customers and suppliers
- iv) Increase market share
- v) Brand recognition

3 i) Communication

- ii) Motivation
- iii) Co-ordination

4 There is likely to be less need to secure external funding, meaning that retained profit – probably the safest source of finance – may be sufficient to finance organic growth.

5 Inorganic growth

- 6 i) Predictability leading to loss of some staff
- ii) Failing to fully exploit short-lived opportunities
- iii) The danger of falling behind rivals in terms of scale

7 i) Cost synergies

- ii) Increased market power
- iii) Diversification

8 a) Forward vertical integration

- b) Horizontal integration
- c) Backward vertical integration
- d) Conglomerate integration
- e) Merger (horizontal integration)

9 When the cost of borrowing (interest payable) is higher than the returns generated by the takeover

10 Two from:

- i) Survival (lower fixed costs)
- ii) Cost efficiency (may be easier to track waste and avoid diseconomies of scale)
- iii) Employee welfare (sense of belonging)
- iv) Customer satisfaction
- v) Social objectives (especially if locally focused)

11 Focused differentiation

12 Staff will feel a sense of belonging, motivating them to do their best for the business.

Chapter 13

1 Fluctuations, trends, erratic

2 Extrapolation

3 The business should be able, once staff rotas have been planned, to use the number of hours staff are expected to work to see what level of sales that should generate.

4 Payback = 2 years and 4.8 months

5 $ARR = \frac{\pounds 150,000 - \pounds 120,000}{3} = \pounds 30,000$; $\frac{\pounds 30,000}{\pounds 10,000} \times 100 = 300\%$

6 $NPV = \frac{\pounds 45,500}{1.1} + \frac{\pounds 41,500}{1.1^2} + \frac{\pounds 37,500}{1.1^3} - \pounds 120,000 = \pounds 4,500$

7 Payback

8 Net present value

- 9 a) Circles
- b) Squares

- 10 Multiply each expected return by the probability of each possible outcome.
- 11 Node 3 expected value = £50; Node 2 expected value = £170; Node 1 expected value = £230. So choose option A.
- 12 a) set up production, sell into shops
b) sales estimate, design packs, brief the sales force
c) sell into shops
- 13 B, D, F, G
- 14 LFT – duration – EST
- 15 ESTs allow a clear date before which resources will not be needed. Thus all deliveries or resources required can arrive on the day the activity is scheduled to begin.

Chapter 14

- 1 Three from:
 - i) Relationship between plcs and the financial markets
 - ii) Use of short-term measures as determinants of bonuses
 - iii) Threat of takeover
 - iv) Financial roots of many UK bosses
- 2 Three from:
 - i) Inadequate expenditure on research and development
 - ii) Accounting adjustments that inflate current earnings
 - iii) A bias towards using profit for high dividend payments or to buy back shares, at the expense of investment
 - iv) Adopting pay schemes for directors that focus on achieving short-term financial objectives
 - v) A willingness to cut the workforce quickly, leading to high labour turnover and a loss of experience and skills that may be needed in the future
 - vi) Ignoring long-term risks with products and services, such as shifts in consumer habits or potential obsolescence
 - vii) A focus on takeovers to grow rather than the use of organic growth
 - viii) A shortage of investment in image building advertising
 - ix) Minimal training budgets
- 3 Routine decisions
- 4 Weaker
- 5 The role culture is typified by the need to follow rules and avoid mistakes. Innovation involves doing things differently and taking risks. Therefore, in a company with a role culture, the very things needed for innovation are discouraged.
- 6
 - i) Power
 - ii) Role
 - iii) Task
 - iv) Person
- 7 Three from:
 - i) Aims or mission of the business

- ii) Behaviour of company directors
 - iii) Attitude of senior management to risk
 - iv) Recruitment and training procedures
- 8 Three from:
 - i) Self-interest
 - ii) Different assessments of the need to change
 - iii) Misunderstanding changes
 - iv) Low tolerance to change
- 9 Internal:
 - i) Employees
 - ii) Managers
 - iii) Major shareholders
 External – three from:
 - i) Suppliers
 - ii) Society
 - iii) Government
 - iv) Creditors
 - v) Small shareholders
 - vi) Customers
- 10 Regularly satisfying stakeholders helps to build a relationship with them so that when the business needs something from the stakeholder group (overtime from employees, an overdraft extension from the bank or quick delivery from suppliers) they may be more willing to help.
- 11
 - i) Replacing employees with machinery or robots
 - ii) When discussing a pay rise or a change to working conditions
- 12
 - i) The personal moral beliefs of the decision-maker
 - ii) Corporate culture
- 13
 - i) Risk
 - ii) Reward
- 14 The gap between the amount executives receive and average pay levels within their organisation; this is a little more subtle than simply the size of CEOs' salaries
- 15 If consumers value a company's efforts to look after a wide group of stakeholders, they may be willing to pay a premium price for the company's products – thus boosting profit margins, unless the cost of CSR is greater than the increase in revenue generated.

Chapter 15

- 1 To assess how many loans the company already has or to see if they have sufficient assets to repay the debt
- 2 Long-term loans, share capital, retained profits
- 3 What a business owns and owes and where the money came from
- 4 Accumulated retained profits
- 5 Both direct and indirect costs have been deducted, but the figure is not affected by issues relating to the financing of the business and decisions on dividends, which are not directly related to how well the business has been run.
- 6 The financial performance of a business for a period, deducting different costs from revenue to calculate different types of profit (132 characters!)

- 7 i) Staff, to see if the firm can afford a pay rise
 ii) Suppliers, to see if the firm should be offered credit
 iii) Bankers, to see if the firm is likely to be able to repay debt and handle interest payments
- 8 a) 2.4
 b) 1.4
- 9 a) 62.5%
 b) 70%
- 10 $\text{£}3\text{m}/\text{£}15\text{m} \times 100 = 20\%$
- 11 a) Gross profit margin
 b) Gearing
 c) Acid test ratio (or current ratio)
- 12 i) Pay back loans
 ii) Increase reserves by retaining more profit or selling more shares
- 13 a) 1.5
 b) 1
- 14 Over 50%
- 15 i) Improve operating profit without acquiring more long-term finance
 ii) Reduce capital employed without damaging profit
- 16 If one worker makes more units for the same hourly wage, the cost of the worker is spread over more units – therefore lower cost per unit.
- 17 The need to keep replacing staff who leave will drive up recruitment costs, which is likely to result in unexpectedly high cash outflows.
- 18 Herzberg sees company policy as a hygiene factor. If new rules are unpopular, employees become dissatisfied – evidenced by missing more days at work.
- 19 It appears that labour productivity is being driven up by making the lives of the workers less pleasant – perhaps with fewer breaks or longer hours – causing increased days off and leavers.
- 20 Two from:
 i) Employee share ownership
 ii) Financial rewards
 iii) Perhaps a loyalty bonus
 iv) Consultation strategies
 v) Empowerment strategies
- 21 If new staff are bringing in new ideas or ways of working this could have led to the increase in productivity. Staff with new, more relevant skills may have arrived, capable of working more efficiently.
- 3 a) Suppliers are likely to gain extra revenue from larger orders.
 b) Staff will be busier, but perhaps happier with increased job security and possibly the chance for overtime pay or promotion.
- 4 i) Staff must understand the need for change.
 ii) Staff must understand what the post-change world will be like.
 iii) Staff must understand how the organisation will make the changes.
- 5 The culture of a young technology firm may be more likely to accept change as a feature of its market and be without long traditions of how things are done, in contrast to a long-established firm in a market that experiences less radical change at a slower rate.
- 6 i) Education and communication
 ii) Participation and involvement
 iii) Negotiation and agreement
- 7 i) Identify risks
 ii) Quantify cost
 iii) Allocate probability
- 8 i) Loss of key staff
 ii) IT systems failure
 iii) Natural disasters
- 9 Having time to think things through leads to better decisions. Meanwhile, resources which may be required to ensure business continuity can be secured in advance.

Chapter 17

- 1 i) Willingness to accept inward investment from multinationals
 ii) More enterprising behaviour from local businesses
 iii) More stable government
 iv) Easier access to export markets due to improvements in communication and transport: globalisation
- 2 i) Increased domestic competition
 ii) Offshoring
 iii) New export markets
- 3 i) GDP per capita
 ii) Health
 iii) Education
- 4 1,300 million (or 1.3 billion)
- 5 Three from:
 i) Government spending
 ii) Attracting FDI
 iii) Export growth
 iv) Low wages
 v) Manufacturing sector
 vi) Weak currency
 vii) Opening up the economy to foreign investment; a political move

Chapter 16

- 1 Changes in the market
- 2 Three from:
 i) Changes in organisational size
 ii) Poor business performance
 iii) New ownership
 iv) Transformational leadership

- 6 Two from:
- Poor infrastructure
 - Democracy
 - Inflation
- 7 a) Still scope for the service sector to grow rapidly
b) Better historical links with India may help UK firms do a better job than they have done in China.
- 8 Japan and China
- 9 600 million
- 10 i) Corruption
ii) Poor infrastructure
iii) Investor concern about stability
- 11 Each country stops trying to make the products and provide services to which they are not suited. They must therefore buy these from other countries. To pay for this, they will need to export their specialisms.
- 12 Import: the money is leaving the UK.
- 13 Doing one thing over and over again leads to lower costs per unit – potentially lower than any rivals.
- 14 Three from:
- Lower operating costs
 - Access to natural resources
 - Lower transport costs
 - Avoiding trade barriers
 - Avoiding problems of exporting
- 15 i) Quotas
ii) Tariffs
iii) Regulation
- 16 i) Companies that rely on imported materials and components will enjoy lower costs, enabling them to reduce prices to compete with cheaper imported rivals.
ii) Due to the bilateral nature of trade agreements, liberalisation can lead to increased export opportunities with the removal of barriers in the other direction.
- 17 i) More efficient engines
ii) Larger boats, trucks and planes
iii) The internet
- 18 Without the need to work towards harmonising laws with other EU members, the UK government can now use this tool to protect UK producers.
- 19 i) Declining industries facing job losses
ii) Industries in their infancy
- 20 i) Tariffs, legislation or quotas should cut imports
ii) Subsidies may boost exports
- 21 Three from:
- Managers
 - Staff
 - Shareholders
 - Suppliers
 - Local communities
- 22 Three from:
- EU (Europe)
 - USMCA (North America)
 - ASEAN (South East Asia)
 - MERCOSUR (South America)
 - East African Community (East Africa)
- 23 Two from:
- Harmonisation of laws
 - Free movement of people
 - Free movement of capital
- 24 Operating within a free trade area turns the whole free trade area into a firm's domestic market, thus boosting potential market size, making significant growth in scale more feasible.

Chapter 18

- 1 i) Saturated home market
ii) Arrival of a new competitor
iii) Extending the product life cycle
- 2 i) Economies of scale
ii) Opportunities to outsource or offshore
iii) Risk spreading
- 3 Three from:
- Growth
 - Survival
 - Cost minimisation
 - Risk spreading
- 4 High-end luxury goods
- 5 Three from:
- Days to start a business
 - Days to wait for a construction permit
 - Days to get electricity
 - Total tax rate as a percentage of profit
 - Days to import an item
 - Days to enforce a contract
- 6 Three from:
- Roads
 - Railways
 - Running water
 - Reliable electricity
 - WiFi and broadband connection
- 7 Labour intensive
- 8 India
- 9 Three from:
- Job creation
 - Extra tax revenues
 - A boost for local suppliers
 - Increasing skill levels among local labour force
 - Potential for a positive impact on the balance of payments
- 10 A merger involves a change of ownership: a new business is created; a joint venture means that two firms maintain separate identities, but work together.
- 11 In such circumstances, allegations of unethical treatment of staff could be made. A takeover ensures the business has absolute control over what happens at the supplier's site, something that is not the case with a joint venture.

- 12 Working with a local partner, who is likely to have a deep understanding of the new market, ensures that a lack of market knowledge is avoided.
- 13 Strong Pound Imports Cheaper Exports Dearer
- 14 Those that import raw materials
- 15 i) Improve productivity
ii) Outsourcing
iii) Offshoring
- 16 Four from:
 - i) Design
 - ii) Functions
 - iii) Engineering
 - iv) Performance
 - v) Branding
 - vi) Advertising
 - vii) Sponsorship
 - viii) Celebrity endorsement

Chapter 19

- 1 Polycentric
- 2 Glocalisation
- 3 Market wealth
- 4 i) Economic factors
ii) Weather factors
iii) History and tradition
- 5 High-end luxury goods
- 6 Local knowledge and experience among decision-makers
- 7 i) Cultural differences
ii) Different tastes
iii) Language
iv) Unintended meanings
v) Inappropriate translations
vi) Inappropriate branding and promotion
- 8 Three from:
 - i) Food
 - ii) Drink

- iii) Fashion
- iv) Music
- 9 Selling

Chapter 20

- 1 i) Draining local overqualified staff
ii) Forcing local firms out of business, creating job losses
iii) Failure to maintain standards of working conditions may see them slipping back to local, low standards
- 2 Multinationals may have internal policies that require them to operate at higher environmental standards than local laws require. This may mean that domestic businesses do more damage to the environment.
- 3 Different rates of corporation tax apply in different countries.
- 4 Should multinationals:
 - i) pay workers in developing countries more
 - ii) offer better working conditions
 - iii) be responsible for how staff are treated by their suppliers?

Should consumers in the developed world be uneasy about wearing clothes made in exploitative conditions?
- 5 i) Emissions
ii) Waste disposal
- 6 The moral code governing expectations as to how business should be conducted
- 7 a) Major shareholders, government
b) Pressure groups, customers
- 8 Two from:
 - i) Safety concerns
 - ii) Short-term mineral extraction
 - iii) Weakening of local cultures
 - iv) Lack of commitment to the host country
- 9 Tax and takeovers