A-Level Business: **w25 12**

4	**Analyse <u>one</u> reason why a business might hold low levels of inventory.** **NOTE: No marks can be awarded if a valid reason is not given.** **Indicative content.** Responses may include: **AO1 Knowledge and understanding – 1 mark for identifying ONE reason why a business might hold low levels of inventory** • A business needs to avoid too high costs • Low inventory levels avoid many costs • Business may not afford high levels of inventory • Business operating JIT – no need for inventory • Concern for cash flow management • Concern for high profit • Avoiding waste
4	**AO2 Application – 2 marks for DEVELOPED application/explanation of ONE reason -put ticks in body of script.** **– 1 mark for LIMITED application/explanation of ONE reason – put tick in body of script.** • Too high costs include storage damage, theft, costs • Businesses may be able to avoid these costs • Opportunity cost possibilities • Low inventory costs provide business flexibility • Some businesses may have little choice of high or low inventories • Perishable goods become out of date **AO3 Analysis – 2 marks for DEVELOPED analysis of ONE reason – put ticks in body of script** **– 1 mark for LIMITED analysis of ONE reason – put tick in body of script.** • The avoidance of costs involved in holding high levels – storage costs – obsolescence costs – spoilage, theft, damage, shifts in demand etc. • Opportunity cost of high levels – limitation of business flexibility. • Less pressure on cash flow and profitability. • Business might be involved in specialised work requiring only low levels of inventory. • Business (new)might only be able to afford a low level of inventory. • JIT inventory opportunities may exist that allows low levels to be carried. • Wasted goods have to be thrown away costing money and reducing profit Accept all valid responses.

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3(a)	**Define the term *inventory re-order level.*** **Indicative content** Responses may include: **AO1 Knowledge and understanding** Clear understanding (2 marks) • The level/quantity of inventory that triggers a new order to suppliers (2) Partial understanding (1 mark) • The time to re-order inventory (1) • A decision to replenish stock (1) Accept all valid responses.

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3(b)	**Explain <u>one</u> advantage to a business of holding buffer inventory.** There are 3 marks for this question**:** 1 mark for K 2 marks for APP **Indicative content** Responses may include: **AO1 Knowledge and understanding** 1 mark for identifying **one** advantage of holding buffer inventory A term used in logistics that describes a level of extra stock that is maintained to mitigate risk or stockouts caused by uncertainties in supply and demand. • Avoid stockouts • Allow continuous production • Meet customer demands, including unexpected demands • Meet bulk orders • Avoid lost sales • Protect against fluctuations in demand/market • Helps if there is damage to parts of inventory **AO2 Application** 2 marks for **developed** APP of the **advantage** given 1 mark for **limited** APP of the **advantage** given • Adequate buffer stocks allow businesses operations to proceed according to plan.
3(b)	• Protects against unforeseen variation in supply – supply chains are longer, more globalised with forces causing more frequent disruptions. • Compensates for forecast inaccuracies – a consistent demand changes suddenly – customer service is maintained through use of the buffer stock. • Avoids stockouts and keeps customer service and satisfaction levels high – keeps warehouse and supply chain running smoothly. • Allows a business to take advantage of bulk buying discounts and so reduce the cost of inventory. Accept all valid responses.

A-Level Business: **s25 13**

3(a)	**Define the term Just in Time (JIT).** **Indicative content** Responses may include: **AO1 Knowledge and understanding** Clear understanding **NOTE:** A clear definition that merits two marks should include reference to two out of the following three 1 mark responses: • The management of inventory (1) that ensures that new inventory arrives just when needed (1) removes the need for inventory to be held in storage until it is needed (1) Partial understanding • Where inventory is kept low (1) Accept all valid responses.

3(b)	**Explain <u>one</u> disadvantage to a business of using Just in Time (JIT).** There are 3 marks for this question**:** 1 mark for K 2 marks for APP **Indicative content** Responses may include: **AO1 Knowledge and understanding** 1 mark K for identifying **one** disadvantage of using JIT • Production process can be delayed when supplies do not arrive or are late • Frequent small deliveries needed • More planning ahead with suppliers required • Small orders need to be processed • Suppliers need to be reliable • Could be expensive • No discounts for bulk orders- no economies of scale • Unable to respond to unexpected customer demand • Can lead to stockouts

3(b)	**AO2 Application** 2 marks for **developed** APP of the disadvantage given 1 mark for **limited** APP of the disadvantage given • Any failure to receive supplies or components on time – could lead to production delays. • Frequent small deliveries – could lead to an increase in delivery costs. • Small orders need to be processed – administration costs may rise. • Each order is likely to be small – lose out on bulk discounts. • Suppliers need to be reliable – if not could affect reputation • Could be expensive to implement for small firms – increase costs • May require investment in new technology • Could lose sales/ revenue/profit Accept all valid responses.