**5** **(a)** Analyse **two** benefits to a business of using a vertical merger for growth. [8]

**(b)** ‘Risk-taking is the most important quality needed by an entrepreneur to be successful in the clothing design industry.’

Evaluate this view. [12]

**OR**

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**3** **(a)** Define the term *hostile takeover*. [2]

**(b)** Explain **one** importance to a business of having objectives. [3]





**2** **Natalia’s Naturals (NN)**

NN is a small business owned by Natalia. NN produces and sells a range of natural skincare products.

In 2020, Natalia started making her own skincare products at home using natural ingredients. She realised that there was a demand for her products among her friends and family. Natalia then decided to turn her hobby into a business and launched NN in 2021.

Natalia operates her business from a rented workshop with limited space, where she makes her products by hand. She buys her ingredients from local suppliers who share her values of environmentally friendly production.

NN has been growing steadily and has gained a loyal customer base. NN has received positive reviews from beauty magazines. Natalia’s skincare products are sold through her own website, social media platforms and local retailers who specialise in selling natural products.

Natalia is developing a new face cream. Table 2.1 shows price and cost estimates for the new face cream.

**Table 2.1 Price and cost estimates**

| Product | Price | Allocated fixed costs | Variable costs per unit |
|---|---|---|---|
| Face cream | $5 | $12000 | $2 |

The skincare market is very competitive. There are many established brands that offer similar products to NN, but with wider distribution channels.

Natalia needs to balance her time between production, managing orders, delivery, marketing and other administrative tasks. She works long hours and is stressed and exhausted.

Natalia is considering outsourcing to increase NN’s production capacity.

**(a)** **(i)** Identify **one** internal stakeholder of a business. [1]

**(ii)** Explain the term *distribution channels*. [3]

**(b)** **(i)** Refer to Table 2.1. Calculate the break-even level of output of the new face cream. [3]

**(ii)** Explain **one** limitation to NN of break-even analysis. [3]

**(c)** Analyse **one** advantage and **one** disadvantage to NN of being a small business. [8]

**(d)** Evaluate whether outsourcing is the most suitable way to increase NN’s production capacity. [12]

## 1 Solar Farms (SF)

SF is a private limited company that develops and maintains large-scale solar farms in country X. SF operates as a capital intensive business.

Bob is an entrepreneur and the majority shareholder of SF. He invested into SF's first solar farm. SF took out high-interest bank loans to cover initial cash flow problems and provide working capital. SF used internal (organic) growth over the next 10 years.

SF rents fields from farmers. Its main capital expenditure is solar panels, which are installed on the rented fields. The solar panels generate electricity, which SF sells to energy providers. Solar panel technology is constantly improving.

SF operates five solar farms in country X. A team of seven engineers maintain all of SF's solar farms.

Table 1.1 shows SF's budgeted and actual data for 2024.

**Table 1.1 SF's annual budgeted and actual data for 2024**

| | Budget ($m) | Actual ($m) |
|---|---|---|
| Revenue | 5 | 4 |
| Total costs | 3 | 3.75 |
| Profit | 2 | 0.25 |

Bob has identified that SF can increase its revenue by using batteries to store electricity generated by the solar panels. This electricity can then be sold at peak times for premium prices. This will require significant investment into battery technology.

Bob wants to retain control of SF but is concerned about the investment required for further growth. In 2024 the cost of renting new farmland and purchasing solar panels increased significantly.

ZB is a multinational battery manufacturer that is keen to start a joint venture with SF. If the joint venture goes ahead, ZB will insist that SF uses ZB batteries in all future solar farms.

**(a)** **(i)** Identify **one** quality an entrepreneur needs for success. [1]

**(ii)** Explain the term *working capital*. [3]

**(b)** **(i)** Refer to Table 1.1. Calculate the profit variance for SF in 2024. State whether the variance is favourable or adverse. [3]

**(ii)** Explain **one** drawback to SF of using budgets. [3]

**(c)** Analyse **two** limitations to SF of operating as a capital intensive business. [8]

**(d)** Evaluate whether a joint venture is the most appropriate way for SF to grow. [12]





## 2 Premium Homes (PH)

PH owns student rental accommodation in all the major cities in country Y. PH used demographic segmentation in its market research. This research identified that university students would pay a premium for high specification rental accommodation.

PH has specialist teams focused on sales, maintenance, customer service and finance. There is little opportunity for internal promotion. PH pays low salaries, however, it offers profit sharing to motivate its 150 employees. This has been effective as PH has had low labour turnover.

In the last two years, profit levels have fallen by 75%. In 2024, 45 employees left PH. Complaints about maintenance and customer service have increased due to the lack of experienced employees in PH.

The Finance Director is reviewing PH's existing sources of finance, shown in Fig 2.1.

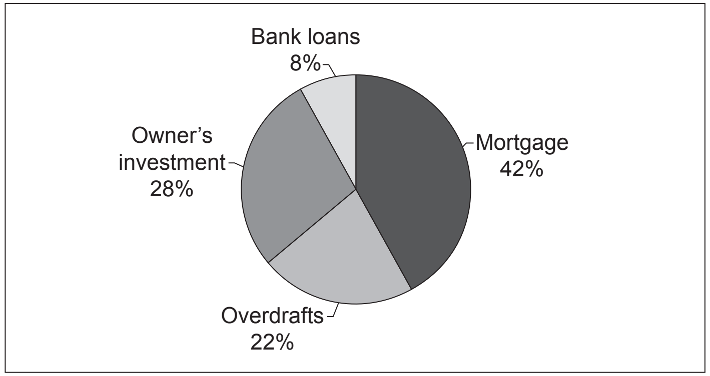


**Fig 2.1 PH's sources of finance**

Frank, the Operations Director, wants to improve the sustainability of PH's operations. He plans to:

- stop renting out accommodation in some lower-income cities, and sell these buildings
- upgrade accommodation in high-income cities
- reduce the size of the workforce.

**(a)** **(i)** Identify **one** way in which business size can be measured. [1]

**(ii)** Explain the term *demographic segmentation*. [3]

**(b)** **(i)** Refer to lines 6–8. Calculate PH's labour turnover in 2024. [3]

**(ii)** Explain **one** way in which PH could use Maslow's Hierarchy of Needs. [3]

**(c)** Analyse **one** advantage and **one** disadvantage to PH of using an overdraft as a source of finance. [8]

**(d)** Evaluate whether Frank's plan will improve the sustainability of PH's operations. [12]