

3(a)	Explain <u>two</u> benefits and <u>two</u> limitations of CC using batch production. Award 1 mark for each relevant benefit/limitation (max 4). Award 1 additional mark for each explanation of the benefit/limitation applied to this context. Relevant benefits might include: • Flexible way of working – can easily change to produce cookies for different special occasions • More variety in tasks than if flow production is used – better motivation for the 10 production employees • More variety of products produced - to have personal messages written on them • Production may not be affected too much if baking equipment breaks down • Larger quantity produced than job production – can keep restocking the shop with full variety of cookies • Raw materials can be purchased in larger quantities than job production so gain discounts / economies of scale / lower unit cost of fresh ingredients Relevant limitations might include: • Can be expensive / awkward to move part-finished goods around the factory – the business is only small • Machines have to be reset between batches – takes time / delays production for the new Operations Manager • One mistake in production may mean the whole batch is affected / needs to be thrown away – wasted ingredients • Warehouse space needed - for finished batches stored before being sold in CC's shop • Size of batch may be too small – not enough cookies to meet demand / may be too large / left over cookies if not popular • May be more repetitive than job production – 10 production workers may become bored For example: Flexible way of working (1) and can easily change the production process to produce different types of cookies (app). Application could include: cookies; sells at own shop; messages put on cookies; 10 production employees; 5 shop employees; Operations manager; fresh ingredients; special occasions; small business; sole trader; established for 5 years; competitors' products sold in retail shops in other cities, personalised messages.
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3(b)

Consider the two options for CC’s new cookies outlined in Appendix 3. Which option should CC choose to produce? Justify your answer using appropriate calculations.

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both products. Well-justified recommendation. Candidates discussing both products in detail, in context and with a well-justified recommendation, including why the alternative product was rejected, should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least one product. Judgement with some justification / some evaluation of choice made. Candidates discussing both products in detail and applying them to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the products with little / no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining both products in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

3(b)	Relevant points might include: <table border="1"> <tr> <td data-bbox="363 188 639 636">Option 1</td><td data-bbox="639 188 1326 636"> - Sales are higher by 6500 per month – 8000 compared to 1500 - Total cost is \$7000 per month - Total revenue is \$8000 per month - Profit per month is \$1000, \$500 less than Option 2 Forecast growth is high so revenue in the future should increase - Gross profit margin 50% - Profit margin 12.5% - Break-even output 6000 cookies a month, 2000 less than predicted sales </td></tr> <tr> <td data-bbox="363 636 639 1048">Option 2</td><td data-bbox="639 636 1326 1048"> - Total revenue \$7500 - Total cost is \$6000 per month with same fixed cost of \$3000 and variable cost of \$2 per cookie - Profit per month is \$1500 Forecast low growth so revenue in the future may not increase - Gross profit margin 60% - Profit margin 20% - Break-even output 1000 cookies a month, 500 less than the predicted sales </td></tr> <tr> <td data-bbox="363 1048 639 1491">Recommendation</td><td data-bbox="639 1048 1326 1491"> Justification might include: - Option 1 is the better one to choose as the revenue is higher by \$500 than Option 2. Even though its profit is \$500 per month lower than Option 2 it has high future growth opportunities and could earn higher revenue and higher profit in the future. - Option 2 is better than Option 1 as it has a higher profit by \$500 per month. The gross profit margin and profit margin are both higher giving more profit from the sale of each Option 2 cookie. </td></tr> </table>	Option 1	- Sales are higher by 6500 per month – 8000 compared to 1500 - Total cost is \$7000 per month - Total revenue is \$8000 per month - Profit per month is \$1000, \$500 less than Option 2 Forecast growth is high so revenue in the future should increase - Gross profit margin 50% - Profit margin 12.5% - Break-even output 6000 cookies a month, 2000 less than predicted sales	Option 2	- Total revenue \$7500 - Total cost is \$6000 per month with same fixed cost of \$3000 and variable cost of \$2 per cookie - Profit per month is \$1500 Forecast low growth so revenue in the future may not increase - Gross profit margin 60% - Profit margin 20% - Break-even output 1000 cookies a month, 500 less than the predicted sales	Recommendation	Justification might include: - Option 1 is the better one to choose as the revenue is higher by \$500 than Option 2. Even though its profit is \$500 per month lower than Option 2 it has high future growth opportunities and could earn higher revenue and higher profit in the future. - Option 2 is better than Option 1 as it has a higher profit by \$500 per month. The gross profit margin and profit margin are both higher giving more profit from the sale of each Option 2 cookie.
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