4(a)	**Explain <u>two</u> reasons why BB might want to sell its products in new markets in other countries.** Award 1 mark for each reason (max 2). Award a maximum of 3 additional marks for **each** explanation of the reason why BB might want to enter new markets in other countries – **one of which must be applied to this context.** Relevant reasons might include: • Much greater growth potential than existing market – populations may be increasing and incomes rising – enabling more people to afford BB's products • Home market has slow growth – so future growth in sales is limited – new markets provide opportunities for growth not available in the existing market • May encourage more production to be located in other countries as well as sales – provides more information on these markets to lead to better understanding of these customers • New developments in marketing may make it easier to reach consumers in foreign markets • To increase sales of BB's products – increases revenue and possibly profit if distribution costs are not too high • Spreads risk – less dependent on one market for its sales For example: There may be much greater growth potential than existing market (1) because population and incomes may be rising (1) which enables more people to afford BB's bikes (app) so sales and revenue will increase (1). **Application** could include: new factory; bikes; flow production; wants to become a multinational company; bike manufacturer; exports 30%; target market of adults and young children; bike components e.g. gears; 100 production workers; paid $10 per hour; sells through specialist bicycle shops; sales have not grown for 3 years.

4(b) **Using Appendix 3 and other information, consider BB's financial performance compared to its main competitor. Do you think BB's financial performance is better than its competitor? 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 whether BB or its competitor has the better financial performance. Well-justified conclusion. Candidates discussing in detail whether or not BB has a better financial performance than its competitor, in context and with a well-justified conclusion 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 whether BB or its competitor has a good financial performance. Judgement with some justification/some evaluation of choice made. Candidates discussing in detail whether BB and its competitor has a good financial performance and applying it to the case with a well justified conclusion 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 financial performance of BB and its competitor with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining the financial performance of BB and its competitor in context should be rewarded with the top marks in the band.	**1–4**
0	No creditable response.	**0**

4(b)	Relevant points might include:		
	Level 1	• The return on capital employed is twice as high as its competitor at **30%** • BB has taken out a bank loan for **$10m** which is $50m lower than the competitor • Gross profit is only half the amount of the competitor's at **$60m** • BB has $80m less revenue than its competitor at **$120m for the year** • The acid test ratio is higher at **1.3** • Revenue is lower at **$120m** for BB and **sales have not been increasing for its bestselling children's bicycle** • Profit is a lot lower than its competitor's profit statements	
	Level 2 statements	• The return on capital employed is higher for BB at **30%** and indicates that BB gains $30 return for every $100 dollars invested in BB but the competitor only returns $15 for every $100 invested so BB is more efficient in its use of capital • The **acid test ratio of 0.67** for BB's competitor shows that after inventories have been removed from current assets it cannot pay all its current liabilities when they fall due for payment. This may make it difficult for the competitor to keep trading if it cannot pay its current liabilities without relying on cash inflows from the sale of inventories • The acid test ratio for BB is good at **1.3** and indicates that BB can repay its current liabilities by 1.3 times – so liquidity is good. However, this may suggest that current assets could be put to better use in the business to increase revenue • The gross profit margin for BB's competitor is 60% • The gross profit margin for BB is 50% • The profit margin for BB's competitor is 20% • The profit margin for BB is 5%	

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4(b)	Conclusion	• BB's financial performance is better than its competitor as the acid test ratio of **1.3** indicates that BB has better liquidity than its competitor with only an acid test ratio of **0.67.** BB may be able to pay any current liabilities more easily. BB is at less risk of insolvency than its competitor and has $50m fewer loans to repay than its competitor. The competitor may have higher gross profit margin and higher profit margin, but these do not lead to a higher ROCE. • BB's competitor has a better financial performance as the gross profit margin is higher by 10% and the profit margin is also higher by 15%.	