

1(a)	Explain <u>two</u> advantages and <u>two</u> disadvantages of a business being a private limited company. Award 1 mark for each advantage/disadvantage (max 2 advantages/max 2 disadvantages). Award 1 additional mark for each explanation of the advantage/disadvantage. There are no application marks for this question. Relevant advantages might include: • Has a separate legal identity – company can be sued but not usually the owners • Can sell shares to family and friends to raise capital – larger amounts of capital may be raised than if a sole trader / partnership • Limited liability – owners will not lose personal possessions if business is unable to pay its debts • Cannot be taken over without the consent of the shareholders • Provides continuity on the death of the owner Relevant disadvantages might include: • Accounts are not private – competitors may access the accounts • Cannot sell shares to the public / shares cannot be sold on the stock exchange - not easy to transfer shares so family and friends may be less willing to buy shares • Legal formalities required to operate the company – need to have accounts audited and registered with government which takes time and increases costs • Legal formalities setting up the company – has to complete paperwork to register the company which takes time and money / may take more time for owner than setting up as a sole trader/partnership For example: Cannot sell shares to the public on the stock exchange (1) as it is not easy to transfer / sell shares family and friends may be less willing to buy shares in the first place (1).
------	--

1(b)

Consider the following three economies of scale for LB. Which economy of scale is likely to have benefited LB the most? Justify your answer.

- Financial
- Purchasing
- Managerial

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of two or more economies of scale. Well-justified conclusion. Candidates discussing all three economies of scale, in context and with a well-justified conclusion, including why the alternative economies of scale were 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 economy of scale. Judgement with some justification / some evaluation of choice made. Candidates discussing in detail two or more economies of scale and applying these 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 economies of scale with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining all three economies of scale in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

1(b)	Relevant points might include: <table border="1"> <tr> <td data-bbox="368 185 544 387">Financial</td><td data-bbox="544 185 1382 387"> • Raise finance more easily and cheaply – as lower risk of not repaying debts due to larger size of business • Banks may offer lower interest rates – lower costs of borrowing for the expansion of the large business than if it was a smaller business </td></tr> <tr> <td data-bbox="368 387 544 663">Purchasing</td><td data-bbox="544 387 1382 663"> • Bulk buy components – discounts / cheaper prices for bulk purchases – reduces average / unit cost of components • May be able to lower prices – as average cost of each product is lower – becomes more competitive – increases sales of bathroom products – revenue increases </td></tr> <tr> <td data-bbox="368 663 544 898">Managerial</td><td data-bbox="544 663 1382 898"> • Specialist managers can be employed – better at their jobs / more knowledgeable as only carried out this task – e.g. marketing manager knows best place to advertise to be more cost efficient • Able to attract the most talented managers – more efficient in manufacturing luxury bathroom products </td></tr> <tr> <td data-bbox="368 898 544 1608">Conclusion</td><td data-bbox="544 898 1382 1608"> Justification might include: • Financial economies of scale will have the greatest effect as LB plans to expand and build a new factory in another country and will probably need to raise some of the finance by borrowing. This will keep down the repayment costs of expanding. LB is already producing on a large scale so the increased benefits from the purchasing and managerial economies may be limited leaving financial economies giving the biggest reduction in unit costs. • Purchasing economies of scale will have the greatest effect on LB's average costs as it produces bathroom products on a large scale so discounts on components will reduce unit costs by a significant amount, increasing gross profit and profit. • Managerial economies of scale will have the biggest effect on unit costs as all managers will be experienced in producing showers and baths and are specialists in their areas leading to efficiencies in all departments of the business. </td></tr> </table>	Financial	• Raise finance more easily and cheaply – as lower risk of not repaying debts due to larger size of business • Banks may offer lower interest rates – lower costs of borrowing for the expansion of the large business than if it was a smaller business	Purchasing	• Bulk buy components – discounts / cheaper prices for bulk purchases – reduces average / unit cost of components • May be able to lower prices – as average cost of each product is lower – becomes more competitive – increases sales of bathroom products – revenue increases	Managerial	• Specialist managers can be employed – better at their jobs / more knowledgeable as only carried out this task – e.g. marketing manager knows best place to advertise to be more cost efficient • Able to attract the most talented managers – more efficient in manufacturing luxury bathroom products	Conclusion	Justification might include: • Financial economies of scale will have the greatest effect as LB plans to expand and build a new factory in another country and will probably need to raise some of the finance by borrowing. This will keep down the repayment costs of expanding. LB is already producing on a large scale so the increased benefits from the purchasing and managerial economies may be limited leaving financial economies giving the biggest reduction in unit costs. • Purchasing economies of scale will have the greatest effect on LB's average costs as it produces bathroom products on a large scale so discounts on components will reduce unit costs by a significant amount, increasing gross profit and profit. • Managerial economies of scale will have the biggest effect on unit costs as all managers will be experienced in producing showers and baths and are specialists in their areas leading to efficiencies in all departments of the business.
Financial	• Raise finance more easily and cheaply – as lower risk of not repaying debts due to larger size of business • Banks may offer lower interest rates – lower costs of borrowing for the expansion of the large business than if it was a smaller business								
Purchasing	• Bulk buy components – discounts / cheaper prices for bulk purchases – reduces average / unit cost of components • May be able to lower prices – as average cost of each product is lower – becomes more competitive – increases sales of bathroom products – revenue increases								
Managerial	• Specialist managers can be employed – better at their jobs / more knowledgeable as only carried out this task – e.g. marketing manager knows best place to advertise to be more cost efficient • Able to attract the most talented managers – more efficient in manufacturing luxury bathroom products								
Conclusion	Justification might include: • Financial economies of scale will have the greatest effect as LB plans to expand and build a new factory in another country and will probably need to raise some of the finance by borrowing. This will keep down the repayment costs of expanding. LB is already producing on a large scale so the increased benefits from the purchasing and managerial economies may be limited leaving financial economies giving the biggest reduction in unit costs. • Purchasing economies of scale will have the greatest effect on LB's average costs as it produces bathroom products on a large scale so discounts on components will reduce unit costs by a significant amount, increasing gross profit and profit. • Managerial economies of scale will have the biggest effect on unit costs as all managers will be experienced in producing showers and baths and are specialists in their areas leading to efficiencies in all departments of the business.								

1(a)	Explain <u>two</u> advantages and <u>two</u> disadvantages to Philip of changing PF from a sole trader business to a private limited company. Award 1 mark for each advantage/disadvantage (max 2 advantages/2 disadvantages). Award a maximum of 1 additional mark for each explanation of the advantage/disadvantage applied to this context. Relevant advantages might include: • Limited liability – as the original investment of \$100 000 as well as his personal possessions are safe • More capital / easier to raise finance – as he can sell shares to fund the building of the new factory • Continuity – if Philip decides to leave the shoe making business, then PF will still exist • May be able to keep control – because he can decide whether to sell shares to expand the business Relevant disadvantages might include: • He would not be able to keep all the profits/pay dividends – from the manufacture of rubber shoes • No privacy / will have to share some financial details – from his forecast statement of financial position • Legal restrictions in setting up the business – which he would not have when he set up the business 10 years ago • Owner may not now have complete control / making all the decisions / being his own boss – such as where to locate the new factory For example: Will not be able to keep all the profit made (1) from selling the shoes he produces (app). Application could include: rubber shoes; natural rubber raw material; build a new factory; sells in a mass market; increase in taxes; bank loan for the new factory; sister wants to invest in the business; \$100 000; wants to grow the business; produce a new range of shoes; operates in a very competitive market; started 10 years ago; information from Appendix 3.
------	--

1(b)

Consider each of the following three methods PF could use to motivate its employees. Which method should PF use? Justify your answer.

- **Paying bonuses**
- **Piece-rate**
- **Job rotation**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of two of more methods. Well-justified recommendation. Candidates discussing all three methods in detail, in context and with a well-justified recommendation, including why the alternative methods were 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 method. Judgement with some justification/some evaluation of choice made. Candidates discussing two or more methods 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 methods with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining all three methods in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

1(b)	Relevant points might include: <table border="1"> <tr> <td data-bbox="368 185 628 831">Paying bonuses</td><td data-bbox="628 185 1374 831"> • May be flexible in the way it is paid – higher pay if the production team increase output of shoes – ensuring that they each work harder so the team has an increased payment • May bring pay up to the same rate paid by local businesses for similar work – employees less likely to leave – lowering PF's recruitment costs • May cause disagreements if only some of the 20 employees are working hard – may be seen as unfair if all get the same bonus while not all the employees work as hard as each other • Paying a bonus is likely to mean profits for the business are lower than expected – may limit retained profit for expansion • Can become expected and if not paid then employees become demotivated – reducing productivity </td></tr> <tr> <td data-bbox="368 831 628 1310">Piece-rate</td><td data-bbox="628 831 1374 1310"> • Wages paid to employees will increase if there is a higher output, so workers will be motivated to increase their output and produce more shoes in a shorter time – increasing efficiency • If work is rushed to obtain more wages, then quality of the shoes might suffer – leading to a poor reputation for the business – fewer repeat customers – lower revenue in the future • May be hard to calculate the contribution of each employee to the total number of shoes produced • It may be seen as unfair by employees if different jobs produce more output than others – then motivation may reduce rather than increase </td></tr> </table>	Paying bonuses	• May be flexible in the way it is paid – higher pay if the production team increase output of shoes – ensuring that they each work harder so the team has an increased payment • May bring pay up to the same rate paid by local businesses for similar work – employees less likely to leave – lowering PF's recruitment costs • May cause disagreements if only some of the 20 employees are working hard – may be seen as unfair if all get the same bonus while not all the employees work as hard as each other • Paying a bonus is likely to mean profits for the business are lower than expected – may limit retained profit for expansion • Can become expected and if not paid then employees become demotivated – reducing productivity	Piece-rate	• Wages paid to employees will increase if there is a higher output, so workers will be motivated to increase their output and produce more shoes in a shorter time – increasing efficiency • If work is rushed to obtain more wages, then quality of the shoes might suffer – leading to a poor reputation for the business – fewer repeat customers – lower revenue in the future • May be hard to calculate the contribution of each employee to the total number of shoes produced • It may be seen as unfair by employees if different jobs produce more output than others – then motivation may reduce rather than increase
Paying bonuses	• May be flexible in the way it is paid – higher pay if the production team increase output of shoes – ensuring that they each work harder so the team has an increased payment • May bring pay up to the same rate paid by local businesses for similar work – employees less likely to leave – lowering PF's recruitment costs • May cause disagreements if only some of the 20 employees are working hard – may be seen as unfair if all get the same bonus while not all the employees work as hard as each other • Paying a bonus is likely to mean profits for the business are lower than expected – may limit retained profit for expansion • Can become expected and if not paid then employees become demotivated – reducing productivity				
Piece-rate	• Wages paid to employees will increase if there is a higher output, so workers will be motivated to increase their output and produce more shoes in a shorter time – increasing efficiency • If work is rushed to obtain more wages, then quality of the shoes might suffer – leading to a poor reputation for the business – fewer repeat customers – lower revenue in the future • May be hard to calculate the contribution of each employee to the total number of shoes produced • It may be seen as unfair by employees if different jobs produce more output than others – then motivation may reduce rather than increase				

1(b)	Job rotation	• Production workers carry out one task for a period of time and then swap round to carry out another task using natural rubber to make the job more interesting and less boring – provides a greater variety of work • Makes rotating the workers around the new factory easier – so can fill in for colleagues who are absent – means less likely to have hold-ups in production – output produced on time • May require training for employees which increases costs – but once trained the employee should be more productive – a one-off cost that will not keep being paid
	Recommendation	Justification might include: • Paying a bonus is the best way to motivate the 20 employees as this will add extra to their wages for the work they do producing shoes and encourage them to work harder. Paying piece-rate may be difficult to calculate each week as employees do different jobs, and some may take longer than others. Job rotation may be difficult to introduce if the tasks are very different. • Paying workers using piece-rate is the best way to motivate employees as this means that employees who work harder producing shoes will be rewarded with higher wages which will make them feel it is all worth the effort, based on Taylor's theory of motivation. • Job rotation is the best way to motivate employees as this is the only one which makes the job of producing shoes more interesting and less boring. Money motivates only for a short time and then the effects will decrease.

1(a)	Explain <u>two</u> advantages and <u>two</u> disadvantages to Jemi of buying a franchise. Award 1 mark for each advantage/disadvantage (max 2 advantages/max 2 disadvantages). Award a maximum of 1 additional mark for each explanation of the advantage/disadvantage of buying a franchise which must be applied to this context. Relevant advantages might include: • Risk of business failure to the franchisee is much reduced – because the brand is well-known with people who like eating vegan meals • The franchisor pays for national advertising – reducing the costs of promotion for the restaurant • Supplies are obtained from central sources / quality will be assured as already checked by the franchisor – less need to research suppliers of plant-based ingredients • Fewer decisions to be made • Training for employees and management is provided/arranged by the franchisor • Banks may be more willing to lend as risk of failure is lower Relevant disadvantages might include: • Less independence than when operating a non-franchise business / franchisor will impose strict controls over what is allowed – which meals to sell • May be unable to make decisions to suit the local areas – and some local vegetables may be more popular than others nationally • Licence fee must be paid to the franchisor – costs \$50 000 • Local advertising will still have to be paid for by the franchisee • Royalty payment made to franchisor each year For example: The risk of business failure is much reduced (1) because the brand is well-known with people who like eating vegan meals (app). Application could include: restaurant; vegan target market; plant-based ingredients; meals; fruit and vegetables; \$50 000; chefs; working 40 hours a week; 12 employees; increasing trend for people eating vegan meals; eating less meat is good for the environment; menus; recipes.
------	---

1(b)	Using Appendix 1 and other information, consider the following <u>two</u> applicants for the position of chef at Jemi's new restaurant. Which applicant should Jemi employ? Justify your answer. • Tianna • Vea		
	Level	Description	Marks
	3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both applicants. Well-justified recommendation. Candidates discussing both applicants in detail, in context and with a well-justified recommendation, including why the alternative applicant 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 applicant. Judgement with some justification/some evaluation of choice made. Candidates discussing at least one applicant in detail and applying it 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 applicants with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining both applicants in context should be rewarded with the top marks in the band.	1–4
	0	No creditable response.	0

1(b)	Relevant points might include: <table border="1"> <tr> <td data-bbox="368 185 632 734">Tianna</td><td data-bbox="632 185 1394 734"> - Wage costs are \$4 per hour more than Veal - Working 40 hours a week will mean wage costs will be \$480 compared to \$320 for Veal - On-the-job training required by a chef at another franchise restaurant – cheaper to train than Veal at \$1000 rather than \$10 000 - Training specific to franchise meals – training more appropriate and focused on VV needs – only requires a short period before ready to start work – 2 weeks - Already qualified chef with many years' experience – should settle to the VV job quickly – may have good ideas from working in several restaurants over 20 years – may be able to improve efficiency – reducing unit costs of meals </td></tr> <tr> <td data-bbox="368 734 632 1384">Veal</td><td data-bbox="632 734 1394 1384"> - Wages are cheaper at \$8 per hour than Tianna at \$12 per hour – working 40 hours then wage cost is \$320 – maybe helping to reduce total costs and increase profit - Off-the-job training at a chef training centre – may teach the latest techniques – so brings new ideas to the restaurant – may lead to increases in efficiency - Will be 10 weeks before they can start work as a fully qualified chef and this may delay the opening of the restaurant – delaying the inflow of revenue from customers - Only part-qualified so may not be as efficient and may produce lower quality meals - Has worked for 10 years assisting chefs in other vegan restaurants – may have more experience of producing these types of meals and the ingredients required </td></tr> <tr> <td data-bbox="368 1384 632 1762">Recommendation</td><td data-bbox="632 1384 1394 1762"> Justification might include: - Tianna should be employed to be the chef at the new vegan restaurant. She is fully qualified and will not take as long to be trained and working to produce franchise meals. Veal is not suitable as she is only part-qualified and will take a lot longer at 10 weeks before she can start to work in the restaurant which may delay the opening. - Veal should be employed as she is a lot cheaper to employ than Tianna at \$8 per hour giving a lower wage cost of \$320 per week. </td></tr> </table>	Tianna	- Wage costs are \$4 per hour more than Veal - Working 40 hours a week will mean wage costs will be \$480 compared to \$320 for Veal - On-the-job training required by a chef at another franchise restaurant – cheaper to train than Veal at \$1000 rather than \$10 000 - Training specific to franchise meals – training more appropriate and focused on VV needs – only requires a short period before ready to start work – 2 weeks - Already qualified chef with many years' experience – should settle to the VV job quickly – may have good ideas from working in several restaurants over 20 years – may be able to improve efficiency – reducing unit costs of meals	Veal	- Wages are cheaper at \$8 per hour than Tianna at \$12 per hour – working 40 hours then wage cost is \$320 – maybe helping to reduce total costs and increase profit - Off-the-job training at a chef training centre – may teach the latest techniques – so brings new ideas to the restaurant – may lead to increases in efficiency - Will be 10 weeks before they can start work as a fully qualified chef and this may delay the opening of the restaurant – delaying the inflow of revenue from customers - Only part-qualified so may not be as efficient and may produce lower quality meals - Has worked for 10 years assisting chefs in other vegan restaurants – may have more experience of producing these types of meals and the ingredients required	Recommendation	Justification might include: - Tianna should be employed to be the chef at the new vegan restaurant. She is fully qualified and will not take as long to be trained and working to produce franchise meals. Veal is not suitable as she is only part-qualified and will take a lot longer at 10 weeks before she can start to work in the restaurant which may delay the opening. - Veal should be employed as she is a lot cheaper to employ than Tianna at \$8 per hour giving a lower wage cost of \$320 per week.
Tianna	- Wage costs are \$4 per hour more than Veal - Working 40 hours a week will mean wage costs will be \$480 compared to \$320 for Veal - On-the-job training required by a chef at another franchise restaurant – cheaper to train than Veal at \$1000 rather than \$10 000 - Training specific to franchise meals – training more appropriate and focused on VV needs – only requires a short period before ready to start work – 2 weeks - Already qualified chef with many years' experience – should settle to the VV job quickly – may have good ideas from working in several restaurants over 20 years – may be able to improve efficiency – reducing unit costs of meals						
Veal	- Wages are cheaper at \$8 per hour than Tianna at \$12 per hour – working 40 hours then wage cost is \$320 – maybe helping to reduce total costs and increase profit - Off-the-job training at a chef training centre – may teach the latest techniques – so brings new ideas to the restaurant – may lead to increases in efficiency - Will be 10 weeks before they can start work as a fully qualified chef and this may delay the opening of the restaurant – delaying the inflow of revenue from customers - Only part-qualified so may not be as efficient and may produce lower quality meals - Has worked for 10 years assisting chefs in other vegan restaurants – may have more experience of producing these types of meals and the ingredients required						
Recommendation	Justification might include: - Tianna should be employed to be the chef at the new vegan restaurant. She is fully qualified and will not take as long to be trained and working to produce franchise meals. Veal is not suitable as she is only part-qualified and will take a lot longer at 10 weeks before she can start to work in the restaurant which may delay the opening. - Veal should be employed as she is a lot cheaper to employ than Tianna at \$8 per hour giving a lower wage cost of \$320 per week.						

3(a)

Define 'capital employed'.

Award two marks for a full definition. Award one mark for a partial definition.

(Shareholders/owners) equity plus non-current liabilities and is the total long-term capital invested in the business [2]

OR

Value of all long-term finance invested in a business [2]

OR

Represents how much money has been invested in the business to pay for all assets [2]

Partial definition e.g. finance/money invested in a business [1]

3(b)	Calculate JTA's return on capital employed (ROCE). Show your working. Award 2 marks for a correct answer. Award 1 mark for correct method but incorrect answer. Correct answer: 12.5% [2] Method: Profit ÷ capital employed × 100 [1] OR 100 ÷ 800 × 100 [1] If correct answer given with no working shown award 2 marks.
3(c)	Outline <u>two</u> benefits to JTA of selling in a mass market. Award 1 mark for each relevant benefit (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • High number of customers/sales [k] from its 44 shops [app] • Spread risk [k] when selling holidays [app] • Economies of scale/examples of economies of scale [k] which could help increase its profit of \$100m [app] • Opportunities for growth [k] for this public limited company [app] Other appropriate responses should be credited.

3(d)

Explain one advantage and one disadvantage of JTA being a public limited company.

Award 1 mark for identification of each relevant advantage/disadvantage (max 2).

Award 1 mark for each relevant reference to this business (max 2).

Award 1 mark for each relevant explanation (max 2).

Points might include:

Advantages:

- Able to raise more/large amount of finance [k] to fund growth [an] in this mass market [app]
- No restrictions on buying/selling shares / can sell shares to general public [k] so can raise more/large amounts of finance [an]
- Limited liability (for shareholders) [k] as personal assets do not have to be sold if the business cannot pay its debts [an]
- Incorporated/separate legal identity [k]
- Continuity [k] so the business will not have to close down on the death of any owner [an]

Disadvantages:

- Risk of takeover [k] of the holiday business [app] which could change the direction/objectives of the business [an]
- Many legal formalities to follow [k] which increases costs [an]
- Have to publish accounts [k] which takes time away from other activities [an]
- Business information can be seen by competitors [k] therefore they can copy ideas / find ways to compete with you [an]

3(d)	• Shareholders expect dividends [k] which can decrease the amount of retained profit / increase cash outflows [an] Other appropriate responses should be credited.
------	---

3(e)

Do you think increasing prices is the best way for a business to increase its profit? Justify your answer.

Award up to 2 marks for identification of relevant points.
Award up to 2 marks for relevant development of points.
Award up to 2 marks for a justified decision as to whether increasing price is the best way for a business to increase its profit.

Points might include:

Increasing prices:

- Increases revenue (if sell the same amount of products) [k]
- Higher prices may suggest better quality [k] therefore customers will be willing to pay the higher prices. [an]
- Fewer customers [k] because customers may switch to competitors [an] reducing their market share [an]
- Increase profit margin [k]

Alternatives to increasing prices:

- Buy cheaper raw materials [k] which may lower quality [an] leading to fewer sales [an]
- Improve packaging/quality of product [k] increasing the number of sales [an]
- Target new markets/develop new products [k] which could increase advertising costs [an]
- Lower rent/expenses or other examples [k] lowering fixed costs [an]

Other appropriate responses should be credited.

3(e)	Justification might include: Increasing prices could increase revenue [k] if sales stay the same [an]. Reducing the cost of raw materials could increase the profit margin [k] but lower the quality [an]. Increasing prices is a better way to increase profit because lower quality products could damage their reputation [eval] and higher prices if linked to quality may attract more customers [eval]
------	--

1(a)	Explain <u>two</u> advantages and <u>two</u> disadvantages of BB being a public limited company. Award 1 mark for each relevant advantage/disadvantage (max 4). Award 1 additional mark for each explanation of the advantage/disadvantage applied to this context. Relevant advantages might include: • Able to sell shares to the public – so additional capital can be raised to finance the new factory • Rapid expansion possible by raising large sums of capital – to become a multinational company • Limited liability would encourage more people to invest in the public limited company • Continuity Relevant disadvantages might include: • Accounts available to the public – competing bike manufacturers can see the accounts • Pressure to pay large dividends to shareholders – this restricts the planned expansion for the children's bike • Risk of takeover/original owners may lose control – and use its flow production line to produce competitors' products • Divorce between ownership and control • More complex accounting and reporting requirements/more legal formalities For example: Able to sell shares to the public (1) so additional capital can be raised to finance the new factory (app). 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; components of bikes e.g. gears; 100 production workers; sells through specialist bike shops; high labour turnover; sales have increased every year since set up.
------	---

1(b)

Consider the advantages and disadvantages of the following three methods BB could use to motivate its production workers. Which method should BB use? Justify your answer.

- Piece rate
- Teamworking
- Job rotation

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of two or more methods. Well-justified recommendation. Candidates discussing all three methods, in context and with a well-justified recommendation, including why the alternative methods were 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 method. Judgement with some justification/some evaluation of choice made. Candidates discussing two or more methods in detail and applying these 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 methods with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining the three methods in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

1(b)	Relevant points might include: <table border="1"> <tr> <td data-bbox="384 185 651 1003">Piece rate</td><td data-bbox="651 185 1370 1003"> • Employees would receive payment for each product/task they carry out – encourages them to work harder/carry out more tasks – produce more output – possibly increased sales from higher output of bikes • Taylor – increased pay leads to employees being more motivated and may reduce the high labour turnover • May be unfair if some tasks take longer than other tasks – so some employees gain more than others in higher payment – may demotivate some employees • If machinery breaks down, then the employees will earn less total pay • The 100 skilled production employees may work quickly to earn higher wages and hence may make more mistakes/reduce quality • May not be able to sell the increased output – increasing storage costs • May be difficult to measure the output of each of the 100 production employees – so difficult to calculate piece-rate and easier to stick to paying \$10 per hour </td></tr> <tr> <td data-bbox="384 1003 651 1444">Teamworking</td><td data-bbox="651 1003 1370 1444"> • Production employees become more involved with the decision-making when working together in a team – makes them feel more valued as have more responsibility in the production process manufacturing bicycles • Feel have more control over tasks – more loyal to BB – less likely to leave so may reduce recruitment costs • Some parts of the flow production process may not easily be divided so a team of employees can work together/may not be easy to apply to the flow production process </td></tr> </table>	Piece rate	• Employees would receive payment for each product/task they carry out – encourages them to work harder/carry out more tasks – produce more output – possibly increased sales from higher output of bikes • Taylor – increased pay leads to employees being more motivated and may reduce the high labour turnover • May be unfair if some tasks take longer than other tasks – so some employees gain more than others in higher payment – may demotivate some employees • If machinery breaks down, then the employees will earn less total pay • The 100 skilled production employees may work quickly to earn higher wages and hence may make more mistakes/reduce quality • May not be able to sell the increased output – increasing storage costs • May be difficult to measure the output of each of the 100 production employees – so difficult to calculate piece-rate and easier to stick to paying \$10 per hour	Teamworking	• Production employees become more involved with the decision-making when working together in a team – makes them feel more valued as have more responsibility in the production process manufacturing bicycles • Feel have more control over tasks – more loyal to BB – less likely to leave so may reduce recruitment costs • Some parts of the flow production process may not easily be divided so a team of employees can work together/may not be easy to apply to the flow production process
Piece rate	• Employees would receive payment for each product/task they carry out – encourages them to work harder/carry out more tasks – produce more output – possibly increased sales from higher output of bikes • Taylor – increased pay leads to employees being more motivated and may reduce the high labour turnover • May be unfair if some tasks take longer than other tasks – so some employees gain more than others in higher payment – may demotivate some employees • If machinery breaks down, then the employees will earn less total pay • The 100 skilled production employees may work quickly to earn higher wages and hence may make more mistakes/reduce quality • May not be able to sell the increased output – increasing storage costs • May be difficult to measure the output of each of the 100 production employees – so difficult to calculate piece-rate and easier to stick to paying \$10 per hour				
Teamworking	• Production employees become more involved with the decision-making when working together in a team – makes them feel more valued as have more responsibility in the production process manufacturing bicycles • Feel have more control over tasks – more loyal to BB – less likely to leave so may reduce recruitment costs • Some parts of the flow production process may not easily be divided so a team of employees can work together/may not be easy to apply to the flow production process				

1(b)	Job rotation	• Makes the employees' job more interesting/less boring • Change tasks around from one product to another on the flow production line – and may need different skills to complete this work • May keep working with different employees from the 100 production workers which employees prefer • May increase training requirements as each worker may only be able to perform one task – so may need additional training to carry out different tasks – increases costs for BB • Quality of bikes may be lower if employees are less specialised in different tasks • May mean sometimes a worker does a job that is not liked – may reduce motivation • May only be motivating in the short term until the worker gets used to the new tasks • Does not make the individual tasks themselves more interesting
	Recommendation	Justification might include: • Introducing piece–rate should be chosen as it will motivate the 100 production employees to increase output to increase their wages. BB will earn a higher revenue if all output is sold, and employees are less likely to leave. Teamworking may make employees feel more motivated but may not lead to a higher output just happier production employees. Job rotation may not increase motivation if the different tasks are all equally boring on the production line. • Introducing teamworking should be chosen as this will make employees feel some control over the tasks they carry out on the flow production line and will give them chance to work together leading to higher motivation and they are less likely to leave. • Introducing job rotation between tasks producing bikes is the best method to choose because it will not cost BB any money if no training is required. It will give variety to the employees' jobs and will encourage them to stay at BB instead of leaving.

4(a)

Define 'social enterprise'.

Award 2 marks for a full definition. Award 1 mark for a partial definition.

An organisation that has social objectives as well as an aim to make a profit to reinvest back into the business [2]

OR

A business with social objectives that reinvests most of its profits back into the business/into benefiting society at large [2]

OR

A business that seeks to raise income, which it invests in a specific social or environmental issue [2]

OR

A business set up to help society/a community rather than make a profit [2]

Partial definition e.g. a business that aims to help/benefit society [1]

4(b)

Identify two ways legal controls over marketing might affect a business.

Award 1 mark per way (max 2).

Points might include:

- No misleading promotion/advertising
- No price fixing/charging very high prices where there is little or no competition
- No selling faulty/dangerous goods/certain ingredients
- Ensure products are fit for purpose
- Price reductions must be genuine
- Increased costs to meet the legal controls/pay fines
- Spend longer time ensuring they meet the legal controls
- May need to alter packaging
- Restrictions on advertising certain products to some age groups/places.

Other appropriate responses should also be credited.

4(c)

Outline one advantage and one disadvantage to CFG of using skimming as its pricing method.

Award 1 mark for each relevant advantage/disadvantage (max 2).

Award 1 mark for each relevant reference to this business (max 2).

Points might include:

Advantages:

- Helps establish a high-quality image/customers may think it is a good quality [k] which may also help as want to be ethical [app]
- Can quickly recover research/development costs [k] which is important as developed a new product [app]
- Higher revenue per item [k] for its chocolate [app]
- May have a lower break-even output [k]

Disadvantages:

- High price might discourage (potential) customers [k] for this social enterprise [app]
- High prices/profitability could encourage competitors to enter market [k] so may not be able to support local farmers [app]

Other appropriate responses should be credited.

4(d)

Explain one advantage and one disadvantage to CFG of using retailers as its distribution channel for the new product.

Award 1 mark for identification of each relevant advantage/disadvantage (max 2).

Award 1 mark for each relevant reference to this business (max 2).

Award 1 mark for each relevant explanation (max 2).

Points might include:

Advantages:

- Producers can sell in large quantities to retailers [k] increasing revenue [an] from its new product [app]
- Reduced costs (**compared to selling direct to consumers**) [k] increasing profit margin [an] in this social enterprise [app]
- Retailer shares the cost of holding inventory [k] lowering expenses [an]
- Retailers will promote the product [k] reducing the cost of promotion/increasing sales [an]
- Access wider range of customers [k]

Disadvantages:

- No direct contact with consumer [k] about its chocolate bar [app] so may not adapt to changing needs [an]
- Final price (paid by consumer) is often high [k] so may be uncompetitive [an]
- Retailer takes some of profit away from the producer [k]
- Producer loses some control of marketing mix [k]
- Retailers usually sell competitors' products as well [k]

Other appropriate responses should also be credited.

4(e)

Do you think being ethical will always lead to lower profit for a business? Justify your answer.

Award up to 2 marks for identification of relevant points.
Award up to 2 marks for relevant development of points.
Award up to 2 marks for justified decision as to whether being ethical will always lead to lower profit for a business.

Points might include:

- Limited/fewer sources of materials [k] leading to less output [an]
- Higher cost of materials [k] leading to higher variable costs/cost of goods [an] which lowers gross profit margin [an]
- Workers may have to be paid more/fair pay [k] increasing labour costs [an]
- May take time to source ethical supplies [k] which could delay production [an]
- Good image/reputation [k] so can charge high(er) prices/lead to customer loyalty [an]
- High(er) demand / increase sales / enter new market / more customers [k] which could increase revenue [an]
- Help recruit/motivate/retain workers [k] leading to lower absenteeism/increased productivity [an]
- Investors more likely to invest [k]
- Can help create better supplier relations (by paying a fair price) [k]
- Less opposition from pressure groups [k]

4(e)

Justification might include:

Being ethical could mean having to pay more to suppliers [k] increasing variable costs [an]. However, this could improve the business's reputation [k] allowing them to increase prices [an]. Being ethical will not always mean lower profit because a better reputation is likely to attract more customers [eval], and the extra revenue gained could cover the costs increasing profit overall [eval].