2(a)	**Define 'entrepreneur'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. • An individual who takes the financial risk of starting (and managing) a new business [2] • A person who takes the risk for a new business venture [2] Partial definition e.g. • A person who starts/sets up a business [1]
2(b)	**Identify <u>two</u> reasons why a governments support start-up businesses.** Award 1 mark per reason (max 2). Points might include: • Create jobs / reduce unemployment • Increase competition • Increase output / improve gross domestic product / increase GDP • Generate taxation/taxes • Motivate/encourage entrepreneurs • (Business) can grow (into larger businesses in the future) • Reduce imports / increase exports • Provide a wider variety of goods/services Other appropriate responses should be credited.

2(c)	**Outline <u>two</u> opportunities for Max's business of using ecommerce.** Award 1 mark for each relevant opportunity (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Lower rent / no/few shops needed [k] so may not need as much government support [app] • Widen market / more potential customers / orders can be taken 24/7 [k] for the books [app] • Website can be used to promote the business [k] which is helpful for this new business [app] • Easy/quick <u>to update</u> [k] for this entrepreneur [app] • Can provide detailed information [k] alongside the market research [app] • Fewer employees needed [k] Other appropriate responses should be credited.

2(d)	**Explain <u>two</u> ways Max could use market research to help make business decisions**. Award 1 mark for identification of each relevant way (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: • Identify consumer needs / identify target market [k] as it's a new business [app] to ensure sales [an] • Identify competition [k] which may influence his marketing/pricing [an] for his books [app] • Identify market size/trends/demand [k] to know what products to stock [an] which may help build customer loyalty [app] • How to promote its products [k] to raise awareness [an] as plans to use ecommerce [app] • What/amount of inventory to buy [k] to keep variable costs low [an] • Set prices/decide what prices to set [k] to ensure business can breakeven / cover costs [an] Other appropriate responses should be credited.

2(e)	**Explain <u>two</u> ways a business could use to build customer loyalty. Which is likely to be the best way for a new business to use? 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 about which is the best way for a new business to build customer loyalty. Points might include: • Offer good customer service / train employees [k] which can make customers feel valued / builds trust [an] • Loyalty (reward) scheme / special offers/discounts <u>to regular</u> customers / <u>membership</u> discounts [k] so they have an incentive to return [an] but it takes time/cost to set up/operate [an] • Build customer relationships / communicate with customer or examples e.g. use newsletters to communicate [k] so customers remember your business [an] • Ask for feedback / carry out market research [k] so the items being sold match customer needs [an] • Respond to complaints quickly [k] so that customers are less likely to go to other businesses [an] • Offer <u>extra</u> services or examples such as after sales service / delivery / credit facilities [k] which show that the business cares [an]

2(e)	Other appropriate responses should be credited. Justification might include: One way is to offer good customer service [k] which can make customers feel valued [an]. Another way is to respond to complaints quickly [k] so that customers are less likely to go to other businesses [an]. Offering good customer service is the best way for a new business because this is likely to reduce the number of mistakes which can help reduces the likelihood of complaints [eval] and improve its reputation which could help the new business compete [eval].

2(a)	**Explain <u>two</u> advantages and <u>two</u> disadvantages to LB of using primary market research.** 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 **in context**. Relevant advantages might include: • Is up to date – finds out about current trends in bathroom products • Relevant to the business as direct contact with potential customers – that produces basins and showers • Is first–hand information / planned and carried out by those who want the information – about this very competitive market • Effective at gathering information about a specific problem – as to which new designs to choose to produce • Not available to other businesses Relevant disadvantages might include: • Can be expensive to collect information – about sales through specialist retail shops • May take time to collect / not available immediately – for this company that has been operating for over 20 years • May not be accurate if people carrying it out are not experienced in this type of research / interviewer bias • Less accurate results gathered if sample does not represent the target market For example: The information is up to date (1) so the business will be aware of current trends in designs of bathroom products (app). **Application** might include: luxury bathroom products; baths/basins/showers; plan to produce a new range of bathroom products; started 20 years ago; sells in specialist retail shops; website contains information on product range; operates in a very competitive market; need to decide which new designs to produce.

<table>
<tr><td>2(b)</td><td>

Consider the advantages and disadvantages of the <u>two</u> options LB could use to distribute its new product range in country X. Which channel of distribution should LB use? Justify your answer.

- **Selling to specialist retail shops**
- **Selling directly to customers through LB's website**

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of both options.

Well-justified recommendation.

Candidates discussing in detail both options, in context and with a well-justified recommendation, including why the alternative option was rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one option.

Judgement with some justification / some evaluation of choice made.

Candidates discussing in detail at least one option and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the options with little/no explanation.

Simple judgement with limited justification / limited evaluation of choice made.

Candidates outlining both options in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>

</td></tr>
</table>

2(b)	Relevant points might include:

	Advantages	**Disadvantages**
Selling to specialist retail shops	• May be able to sell **bathroom products** in larger quantities to retailers – more likely to improve cash flow • Reduces distribution costs – if sell to a few large retail shops rather than direct to customers – fewer journeys for delivery lorries • Already has a relationship with these shops – may be familiar with the quality of the **luxury bathroom products** – can pass this information and advice on to customers – sales may be higher • Lower level of inventories – as some products are sent to the retailer • Retailer may pay for some of the advertising – may reduce marketing costs • **Customers are already familiar with LB's products being displayed** in these specialist shops so may make it easier to sell a new range of products	• Have less control over the way the **basins and showers** are displayed • Will be displayed alongside competitors' products – may lead to fewer sales if **luxury nature of products** is less obvious • Price may be higher after retail profit margin added – leading to fewer sales • No direct contact with customers – so may not be able to emphasise the **luxury bathroom products**

2(b)			
		Advantages	**Disadvantages**
	Selling directly to customers through LB's website	• Lower price can be charged as no profit margin for the retailer included – may lead to higher demand – increased sales and revenue • Direct contact with customers – may gain useful feedback on **showers and baths** – less market research needed in the future • LB controls the way its new bathroom range is described and information provided for customers – more accurate than if sold through a retailer	• Delivery costs paid by customers will be high as **baths** are large and heavy – may reduce sales • May get damaged when being delivered to customers' homes – increasing costs from repair or replacement of products • The luxury nature of the products cannot be appreciated using online sales as customers cannot see or feel the **luxury bathroom products** – customers may not be willing to pay the higher price as do not appreciate the high quality • Storage costs will be higher – as products stored before being dispatched in small quantity to each customer • Increased cost of website being adapted to be able to take customer orders – also ongoing maintenance costs

2(b)	Recommendation	Justification might include: • LB should sell the new bathroom range to the existing specialist retail shops as it already has a good relationship with them, and their employees are likely to be familiar with LB's products so can advise customers about their **luxury nature** encouraging customers to think paying the higher price is worth it. Selling directly to customers through its website will be a new way of distributing its products and may not be successful due to LB's lack of experience. • LB should sell the **new bathroom range** directly to customers through LB's website as it will allow LB to sell to a wider range of customers across a wider area than the current specialist retail shops and therefore have higher sales.

3(a)	**Explain <u>four</u> ways market research information can help a business.** Award 1 mark for each way market research information can help a business (max 4). Award a maximum of 1 additional mark for **each** explanation of the way. There are no application marks for this question. Relevant ways might include: • Helps identify the target market – so can advertise more effectively to this market • Helps to find a gap in the market – so the business can develop a new product to increase sales • Helps identify where consumers purchase products – so can use the most effective distribution channel • Helps identify the price customers are willing to pay – so know the most effective pricing strategy to use • Helps identify which promotional methods consumers are attracted to – so can use these to increase sales • Helps identify which products do not meet consumers' needs – so can stop producing these products • Helps identify competitors – so that they know the best way to compete with them • Helps identify change in customer preferences/tastes/market trends • Helps identify customer needs • Helps to sell into a new market For example: Helps to find a gap in the market (1) so the business can develop a new product that meets customer needs (1).

3(b)

Consider the following <u>two</u> ways TSE could purchase the raw materials for its factories. Which way should TSE use? Justify your answer (12)

- **Head office in country P purchases the raw materials for all TSE factories**
- **TSE's factory managers in each country purchase raw materials locally**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **both** ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way 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 **one** way. Judgement with some justification / some evaluation of choice made. Candidates discussing at least one way 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 ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining the ways 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:

	Advantages	**Disadvantages**
Head office in country P purchases the raw materials for all TSE factories	• Able to make bulk purchases – discounts received – lowering variable costs / lower **cost of materials such as rubber** – lower average costs – increasing profit margin / possibly allowing lower selling prices • Easier to check and standardise the production of tennis balls in different countries as all raw materials are the same quality – maintains reputation for good quality **sports equipment** • Senior managers could find it easier to control subordinates – mistakes less likely to be made as managers are experienced in making these decisions – leading to better reputation • The managers at TSE's factories may not have the skills to carry out the tasks that have been delegated to them – so better decisions are made by head office	• Increased transport costs for raw materials to be taken to each **of the 10 factories –** factories may be in other countries increasing transport costs • Do not have the raw materials available at the different factories – so may not satisfy local demand for **particular sports** – reducing sales • May need warehouses for storage of raw materials before they are sent out to factories in the **10 countries** – increases costs

3(b)		**Advantages**	**Disadvantages**
	TSE's factory managers in each country purchase raw materials locally	• Managers can order better quality raw materials to produce equipment for **local sports** – increases demand / improved competitiveness of equipment used in playing sports in that country – increases revenue • Head/senior managers can now focus on the most important tasks at head office – make better decisions • May increase motivation of managers of TSE's factories leading to higher productivity • May develop skills of managers in other countries	• May be unable to meet sudden increase in demand for **specific sports equipment** – if raw materials are not available – may lose customers as disappointed – lose reputation / customers do not return • May delay the production of **tennis balls** – as need to wait for raw materials if problems with local availability – loses reputation for demand being satisfied quickly • The factory managers may not have the skills to make these decisions – leading to stocking the wrong quantities of raw materials
	Recommendation	Justification could include: • All raw materials purchased by head office is the best way as this will allow considerable cost savings due to purchasing economies of scale and lower unit costs. This will allow TSE to keep prices low and to be more competitive with other similar **sport equipment manufacturers.** Whereas it may be more difficult to ensure the quality of raw materials if they are purchased by the factory managers which could damage the brand reputation. • Each factory manager purchasing their own raw materials is the best way to choose because each manager can meet the local demand for **specific sports**, and this will attract more customers leading to higher revenue.	

2(a)	**Define ‘entrepreneur’.** Award 2 marks for a full definition. Award 1 mark for a partial definition. A person who organises, operates and takes the risk for a new business venture [2] OR An individual who takes the (financial) risk of starting a new business [2] OR A person who combines factors of production <u>to start a business</u> [2] OR An individual who takes the risk by combining factors of production [2] Partial definition e.g. a person who starts/sets up a business [1]

2(b)	**Define 'business plan'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. A document containing the business aims/objectives and important details about the operations, finance and owners of a business. [2] OR A detailed written document outlining the purpose and aim of a business which is often used to persuade lenders or investors to finance a business proposal. [2] OR States aims and/or objectives and show how business plans to achieve them. [2] Partial definition e.g. a document stating the aims of the business [1] OR A document containing details about the operations, finance and owners of a business.[1]

2(c)	**Outline <u>one</u> advantage and <u>one</u> disadvantage to Mitchell of using microfinance as a source of finance.** 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: • Do not need a good credit record/history [k] for this retailer [app] • Less paperwork/no business plan required [k] for this new entrepreneur [app] • No need to provide security/collateral [k] which can help as it is a start-up business [app] Disadvantages: • Only for a small amount [k] so cannot buy many books [app] • Usually **high** interest rates (as low/poor credit rating) [k] Other appropriate responses should be credited.

2(d)	**Explain how the market research data in Chart 1 and Chart 2 in Fig. 2.1 could help Mitchell when making decisions.** Award 1 mark for identification of how the data in each chart can be used when making decisions (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: Chart 1: • Decide the target market [k] as children read the most [app] which could help increase sales/revenue [an] • Decide where to advertise [k] to attract most customers [an] Chart 2: • Decide which type to sell [k] as only 15 million hardbacks are sold [app] which could help reduce the amount of unsold inventory [an] • To decide how many of each type of book he will sell [k] therefore he must have more of these in stock [an] Other appropriate responses should be credited.

2(e)	**Do you think the opportunities of ecommerce for a new business are greater than the threats? 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 the opportunities of ecommerce for a new business are greater than the threats. Points might include: Opportunities: • More potential customers/sales/widen market [k] which can increase market share [an] • No/fewer shops needed [k] so less rent/lower fixed costs [an] which increases its profit margin [an] • Fewer employees needed [k] lower labour/wage costs [an] • Easy to update [k] Threats: • Increased competition [k] so may have to spend more on advertising / have to set lower prices [an] • Potential customers do not trust online business / risk of fraud/hacking [k] therefore they are less likely to purchase [an] • Not everyone has access to the internet [k] which could reduce potential customer base [an] • Lack of personal service/no face-to-face contact [k] so difficult to maintain customer loyalty [an] • Increased costs of postage/distribution [k] which could lead to higher prices [an] • Cost to set up/maintain website [k] which business might not be able to afford [an]

2(e)	Other appropriate responses should also be credited. Justification might include: One opportunity is more potential customers [k] increasing market share [an]. However, there may be increased competition [k] increasing promotional costs [an]. The opportunity is greater because more customers could increase revenue which is likely to cover the additional costs [eval] increasing the chances of a new business being successful. [eval]