3(a)	**Identify <u>two</u> ways business activity can affect the environment.** Award 1 mark per way (max 2). Points might include: • Pollution (or examples) • Use up green space / deforestation / loss of habitat • Deplete natural resources / overmining • (Traffic) congestion Other appropriate responses should be credited.
3(b)	**Identify <u>two</u> reasons why a business should respond to environmental pressures.** Award 1 mark per reason (max 2). Points might include: • Enhance/protect brand image / reputation • Attract/maintain sales • Reduce risk of customer boycott • Differentiate from competitors • To avoid pressure group action • Help recruit employees • Help retain employees • Help attract investors • Reduce risk of legal action/fines / ensure meets legal standards Other appropriate responses should be credited.

3(c)	**Outline <u>two</u> ways economic growth might affect STB.** Award 1 mark for each relevant way (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • High demand/sales [k] for houses [app] • More difficult to recruit/find suitable employees [k] for job production [app] • High(er) business profits likely [k] for this public limited company [app] • Can increase output [k] above 13 500 (houses) [app] • Increase in/high level of business confidence for STB [k] • STB may consider more investment [k] • Employees may ask for higher wages [k] • Increased rent costs / less choice of location [k] Other appropriate responses should be credited.

3(d)	**Explain <u>two</u> benefits to STB of using job production.** Award 1 mark for identification of each relevant benefit (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: • Motivate employees [k] helping lower absenteeism / increase retention [an] among its 5000 employees [app] • Could set high(er) price [k] for each house [app] which may help increase added value/increase profit margin [an] • Meet exact customer requirements/needs [k] can help brand loyalty / increase competitive advantage [an] for this public limited company [app] • Unique/one-off product / specialised products / USP [k] • High-quality goods/service [k] Other appropriate responses should be credited.

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3(e)	**Do you think employees are the most important stakeholder group for a manufacturing 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 about whether employees are the most important stakeholder group for a manufacturing business. Points might include: • Make/produce the products [k] otherwise there is nothing to sell/cannot meet demand [an] • Responsible for quality [k] which could improve/damage its reputation [an] • Without sufficient employees the business may not be able to meet demand [k] Other stakeholder groups include: • Shareholders/owners [k] who provide finance / invest money / capital for the business [an] • Customers [k] as they buy the products [an] generating revenue [an] • Suppliers [k] who provide materials/inventory [an] • Local community [k] who provide the workers for the business [an] • Government [k] as it provides the legal framework in which the business operates [an] • Bank [k] who provide finance/loans [an] Other appropriate responses should be credited.

3(e)	Justification might include: Employees are important as they make the products [k] otherwise there is nothing to sell [an]. Another stakeholder group is customers [k] as they buy the products [an]. Customers are the most important stakeholder because without them, the manufacturing business cannot generate revenue, which is necessary to pay the costs including wages [eval] whereas the business could use machinery instead of some employees. [eval]

3(a)	**Explain two reasons why FF uses job production.** Award 1 mark for reason why FF uses job production (max 2). Award a maximum of 3 additional marks for **each** explanation of why FF uses job production – **one of which must be applied to this context**. Reasons might include: • Is suitable for individual/unique products – makes them more competitive – leading to higher revenue/sales • Meets the exact needs of customers – so increases customer satisfaction – increases reputation and word of mouth advertising • The employees have more varied jobs – as may carry out all the tasks to produce the product – increasing employee motivation • A higher price can be charged – as the product is a 'one-off' for the customer – willing to pay a higher price for a product that is exactly what they want • Production can be of a higher quality – because each product is individually made For example: The flower shop will produce wedding flower arrangements (app) that are specially designed for customers (1) and more closely meets the exact needs of these customers (1) so is more likely to increase customer recommendations (1). **Application** could include: new shop/third shop; 2 shops; flowers; source of finance required for working capital; weddings; bride/groom; ribbons; reputation for high quality; contribute to sustainable development; targets a niche market; 4/8 employees at each shop; bride; average price paid is $2000; supplies purchased each day; supplies are fresh; small business; marketing mix for the new shop; social media reviews.

3(b) **Consider the following two sources of finance which could be used for working capital when FF's new shop opens. Which would be the best source for Kathryn to use? Justify your answer.**

- **Bank overdraft**
- **Trade credit**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **both** sources of finance. Well-justified recommendation. Candidates discussing in detail both sources of finance, in context and with a well-justified recommendation, including why the alternative source is 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** or more sources of finance. Judgement with some justification / some evaluation of choice made. Candidates discussing both sources of finance 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 sources of finance with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining both sources of finance 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
Bank overdraft	• Can be quick to arrange – so finance available straight away • May be arranged for varying lengths of time for repayment – longer time to pay it back from the sale of **wedding** flowers – helping to avoid a cash flow problem	• Amount overdrawn will have to be repaid with interest – increases expenses – may lead to higher prices for **flower arrangements** charged or reduced profits • May need to provide collateral – may lose assets if overdraft cannot be repaid • May have to pay a high interest rate due to it being a **small business** and may be seen as high risk – raises costs further • Interest rate may be variable so if interest rates increase later FF will be affected – increased risks for FF

3(b)

	Advantages	Disadvantages
Trade credit	• Is effectively an interest-free loan – unless penalties for late payment are made • May be able to receive revenue from sales of flowers before paying supplier as has a **good relationship with her supplier** – improves cash flow	• Supplier may refuse to supply if payment is not made as agreed – may damage the relationship with supplier – unable to meet orders spoiling FF's **good reputation** • Supplier may refuse to offer discounts for the flowers at all if payment is not made as agreed – may increase costs – which could lead to higher prices as FF **may use cost-plus pricing**
Recommendation	Justification might include: • A bank overdraft is the best source of finance to use as a sufficient amount of capital may be arranged which will pay for all the operating costs for the new **flower shop**. Some suppliers may not be willing to provide FF with trade credit leaving them short of working capital. • Trade credit is the best source of finance to use as FF can use it to purchase the flowers and then sell them to receive the revenue before payment is due. This is an interest free source of finance for the day-to-day running of the **third** shop.	

3(a)	**Explain <u>one</u> advantage and <u>one</u> disadvantage to CR of holding inventory.** Award 1 mark for each reason (max 2). Award a maximum of 3 additional marks for **each** explanation of the reason why holding inventory is important – **one of which must be applied to this context**. Reasons might include: Advantages: • Demand can easily be met from the inventory of finished products – this means customers are less likely to be disappointed by deliveries being late – and recommend the business to their friends • To ensure unexpected increases in demand can be met – this will avoid losing customers to competitors – keeping customers satisfied / maintaining a good reputation • Without inventory if CR opens its own shop there will be no products for customers to view – and they will not be able to see the excellent quality of the products – therefore may be less likely to make a purchase • May allow a wider variety of different products to be sold • Allows quick replacement of faulty goods Disadvantages: • Ties up cash – if too many raw materials are held then the cost may have been paid by Charly – but no revenue will have been received leading to a possible cash-flow problem • Too much inventory increases risk of products going out-of-date / being stolen / being damaged – the colour or pattern on rugs could go out of fashion – leading to lower sales / increased cost of storage • May take up too much storage space For example: To ensure unexpected increases in demand can be met (1) this will avoid losing customers to competitors (1) and will keep customers satisfied and keep buying from CR (1) when they want a new rug for their home (app). **Application** could include: rugs; sell through wholesalers / sell online / sell through own shops; luxury product; forecast demand is 20 rugs per week; store inventories of raw materials / finished products; new factory.

3(b) **Consider the advantages and disadvantages of the following <u>three</u> ways CR could use to sell its products. Which way should Charly choose? Justify your answer.**

- **Selling through CR's own shop**
- **Selling online**
- **Selling to a wholesaler**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **two** or more ways. Well-justified recommendation. Candidates discussing all three ways in detail, in context and with a well-justified recommendation, including why the alternative ways are 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** way. Judgement with some justification/some evaluation of choice made. Candidates discussing in detail two or more ways and applying them to the case should be rewarded with the topmarks in the band.	5–8
1	Limited application of knowledge and understanding ofrelevant 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 three 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
Selling through CR's own shop	• Sells directly to customers (compared to wholesaler) – can control how the **luxury rugs** are displayed for customers • CR keeps more of the profit margin – than it would if sold through a wholesaler – may be able to reduce the price – to be more competitive • May have more knowledgeable sales staff who can give better advice to customers – may be more likely to buy a **CR rug**	• May have high costs of operating the shop – needs to sell many **rugs** to cover these costs or will have lower profit / make a loss • May not attract many customers if only CR rugs are sold – customers may be attracted to shops where a greater variety of **colours and patterns** of rugs are displayed • Needs a higher amount of working capital as has to cover the inventory held in the shop • May need to borrow more than **$20 000** as this is an additional expense for setting up the factory

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3(b)

	Advantages	Disadvantages
Selling online	• Can sell to a wider market – as not restricted to a single location – may lead to higher sales • Keeps the profit margin of the wholesalers – and no need to set up own shops so lower costs • The website may be used to advertise the **luxury rugs** – reducing marketing costs • Payment made immediately compared to a wholesaler – may improve cash flow if revenue received before the **rug** is made	• Customers cannot see the **colours and patterns** before they buy – may be put off making the purchase leading to lower sales • Can be very expensive to post/deliver the **rugs** out to customers – high delivery costs may be paid by CR – possibly reducing profit margin • Cost of setting up and maintaining the website • Returns of **rugs** that do not meet customer expectations can be expensive to process – and may be damaged so needs repair or be scrapped – increased costs to CR • Warehouse space required to hold inventory before it is sent out to customers – increasing storage costs

3(b)			
		Advantages	**Disadvantages**
	Selling to a wholesaler	• Wholesaler buys in bulk – CR sells a large volume of **rugs** in one delivery – reducing delivery costs • Wholesaler will sell the **rugs** to a wider number of retailers – reaching a much larger market than the market for just one shop • Wholesaler may provide advice on which **colours and patterns** are selling well – makes it easier for CR to produce products that meet customers' tastes and fashions	• Wholesaler will expect a discount of the bulk purchase – CR receives a lower price for its **rugs** • Price charged to customer for **rugs** may be higher than if sold through CR's own shop – as retailers will need to add on their profit margin as well as wholesaler profit margin • Wholesaler may sell **rugs** from competitors making it more difficult for CR **rugs** to stand out and be purchased by retailers • Much less control over the advice given and presentation of the **rugs** to customers – may lead to lower sales

3(b)		
	Recommendation	Justification might include: • CR should sell through its own shop as advice on the quality of the **luxury rugs** and how they should be cared for can be communicated effectively to the customers. This should improve the reputation of CR's rugs and make it more likely that customers become loyal. Selling online may be very expensive in terms of maintaining the website and sales may be low if customers prefer to see the rug before buying. A wholesaler may lead to the price of rugs being too high and less competitive as they will be sold on to retailers and their profit margin will be added on to the final price paid by customers. • CR should sell its **rugs** online as this will be cheaper than setting up its own shop and even though there will be costs to monitor the website and process orders it will be a lot cheaper than operating its own shop. • CR should sell through a wholesaler as it will buy in bulk making transport and marketing much easier and cheaper. The wholesaler will then sell on to many retailers across country P leading to CR's **rugs** being sold to a much wider market.

1(a)	**Identify <u>two</u> benefits to a business of using flow production.** Award 1 mark per benefit (max 2). Points might include: • High output / large number of products made • (Purchasing) economies of scale / discounts for bulk buying / low average/unit costs • Lower labour cost / less workers needed • Increased efficiency/productivity / goods are produced quickly • No need to move goods from one part of the factory to another • <u>Consistent/</u>standardised quality. Other appropriate responses should be credited.
1(b)	**Identify <u>two</u> reasons why people work.** Award 1 mark per reason (max 2). Points might include: • (Earn) money/wage/salary/improve standard of living • <u>Job</u> satisfaction / feel as if you have done a good job • Safety/security for example job security • Social or examples such as feel part of a group/company • Esteem/recognition/status/feel important/valued • Opportunity to reach potential / challenge self to do new things • Help people/provide a service to community/others. Other appropriate responses should be credited.

1(c)	**Outline <u>one</u> advantage of RSL using each of the following methods of internal communication.** Award 1 mark for identification of each relevant advantage (max 2). Award 1 mark for each relevant reference made to this business (max 2). Points might include: Email: • A lot of information/detail/documents can be shared [k] with the 80 employees [app] • Can send information/message to multiple people at the same time [k] about the paint [app] • Keep a copy (to refer to) [k] • Can communicate with people in a different location [k] • Low cost/cheap [k] • Can check if the message has been read [k] Telephone calls: • Quick [k] if there is a problem using flow production [app] • Opportunity for (instant) questions/discussion/decisions [k] with one of the 6 managers [app] • Feedback (straightaway) [k] Other appropriate responses should also be credited.

1(d)	**Explain <u>two</u> leadership styles RSL's managers might use.** Award 1 mark for each relevant leadership style (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: • Autocratic [k] when the manager instructs/ tells workers what to do [an] when using flow production [app] • Democratic [k] when one of its 6 managers [app] asks employees for their ideas/opinions before making a decision [an] • Laissez-faire [k] when the managers leave it up to the employees to make decisions/decide what to do [an] when making paint [app] Other appropriate responses should be credited.

1(e)	**Explain <u>two</u> factors a manufacturing business should consider when relocating its operations to another country. Which factor is likely to be the most important? 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 which factor is likely to be the most important for a manufacturing business when relocating its operations to another country. Points might include: • Access to raw materials [k] as without materials it can delay/stop production [an] so not able to meet orders [an] • Labour issues e.g. cost/access to suitable/skilled/enough employees [k] as lower wage rates could help lower labour costs [an] increasing its profit margin [an] • Land issues e.g. availability/cost of suitable land [k] which could increase/lower fixed costs [an] • Trade restrictions such as tariffs/quotas [k] as quotas could limit the amount of goods allowed into a country [an] • Availability of government grants / rates of taxation [k] which could reduce the amount of finance needed [an] • Legal controls [k] as this could stop/determine where the business can operate [an] • Infrastructure (accept only once) e.g. access to utilities, communications [k] as without suitable power it would be difficult to operate (efficiently) [an] • Available market/demand for the product/level of competition [k] which may reduce transport costs [an] • Language/cultural problems [k]

1(e)	Other appropriate responses should be credited. Justification might include: Access to raw materials [k] without materials there may be delays in production [an]. Another factor is employees [k] as a lack of skills could lead to lower quality products [an]. Access to raw materials is the most important because without materials there is nothing to sell, lowering potential revenue [eval]. However, a business could train employees to produce quality products [eval].

2(a)	**Define 'licensing'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. Business gives permission for another company (in the new market being entered) to produce the branded/patented products (under licence) [2] OR A business in one country permits a firm (in a foreign country) to produce its branded products (under licence) [2] OR When a business gives the right to others to produce/sell its products (in another country) [2] Partial definition e.g. allow someone else to make/sell your products [1]

2(b)	**Identify <u>two</u> factors which might affect how much inventory a business should hold.** Award 1 mark per factor (max 2). Points might include: • Demand for product/amount of sales • Perishability/nature/type of product/durability • (Storage) space available • Cost of storage/warehouse • Delivery charges • Seasons/celebrations/festivals • Amount of money available (to buy inventory) / cost of inventory / finance • Lead time/reliability of supplier • Method of production / rate/quantity of output • Stock control system / JIT • Forecast/expected shortages Other appropriate responses should be credited.

2(c)	**Outline <u>two</u> benefits to SNT of using batch production.** Award 1 mark for each relevant benefit (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Flexible [k] helping the business adapt to the new markets in other countries [app] • Production may not be affected to any great extent if machinery breaks down [k] so can continue to make some soft drinks [app] • Range/variety of products [k] when making 300 000 (bottles per week) [app] • Can motivate workers [k] Other appropriate responses should be credited.

2(d)	**Explain <u>one</u> advantage and <u>one</u> disadvantage to SNT of forming a joint venture when entering new markets in other countries.** 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: • Increase capital / share costs / share resources [k] when making its soft drinks [app] which can help the business reduce borrowing [an] • Access to shared knowledge/expertise [k] increasing productivity/efficiency [an] above 300 000 (bottles per week) [app] • Less need for market research [k] lowers (marketing) costs [an] • Avoid/reduce competition [k] increasing market share [an] • Share/lower (financial) risk [k] which reduces possible losses [an] • May be a legal requirement (in some countries) [k] Disadvantages: • Possible (management) conflict/disagreements/different ways of working [k] as other business may be less concerned about being ethical [app] which can slow down decision-making [an] • Mistakes will reflect on all parties [k] which can damage its reputation [an] reducing its ability to offer licensing [app]

2(d)	• Must share profit [k] which may reduce motivation of each party [an] • It will take time/effort to find the right partner [k] which may delay the expansion [an] Other appropriate responses should be credited.

2(e)	**Do you think the advantages to a business of being ethical are greater than the disadvantages? 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 advantages to a business of being ethical are greater than the disadvantages. Points might include: Advantages: • Good image/reputation [k] so can charge high(er) prices [an] • Good relations with customers [k] which can develop customer loyalty [an] • Increase demand/sales/customers / enter new market [k] increasing revenue [an] • Help motivate workers [k] leading to lower absenteeism / lower labour turnover / increased productivity [an] • Help recruit/attract employees [k] • Investors more likely to invest [k] which may make it easier to expand/grow the business [an] • Can help create better supplier relations [k] Disadvantages: • Limited/fewer materials available [k] leading to less output [an] • High(er) costs [k] could lead to higher prices [an] • May take time to source suitable/ethical supplies [k] which could delay production [an] • May have to pay more to suppliers / for materials [k] leading to higher variable costs/cost of goods sold / lower gross profit margin [an]

2(e)	Other appropriate responses should be credited. Justification might include: One disadvantage is the business may have higher cost of materials [k] leading to a lower gross profit margin [an]. The business may have a better reputation [k] so able to charge higher prices [an]. Being ethical is better because higher prices could increase its profit margin [eval] which could cover the additional costs of materials [eval].

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 – t**he 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.

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:

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.