

GCE



CCEA GCE A2  
Exemplifying Examination  
Performance  
**Business Studies**

This is an exemplification of candidates' performance in GCE A2 examinations (Summer 2018) to support the teaching and learning of the Business Studies specification.



*Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright holders may have been unsuccessful and CCEA will be happy to rectify any omissions of acknowledgement in future if notified.*

# EXEMPLIFYING EXAMINATION PERFORMANCE

## GCE Business Studies

### Introduction

These materials illustrate aspects of performance from the 2018 summer A2 examination series of CCEA's revised GCE Specification in 2016.

Students' grade A responses are reproduced verbatim and accompanied by commentaries written by senior examiners. The commentaries draw attention to the strengths of the students' responses and indicate, where appropriate, deficiencies and how improvements could be made.

It is intended that the materials should provide a benchmark of candidate performance and help teachers and students to raise standards.

For further details of our support package, please visit our website at [www.ccea.org.uk](http://www.ccea.org.uk)

Best wishes



Jill Armer

Education Manager, Business Studies

Email: [jarmer@ccea.org.uk](mailto:jarmer@ccea.org.uk)

Telephone: 028 9026 1200 ext. 2426



**GCE: A2 Business Studies**

**ABU11: Strategic Decision Making**

**Grade: A Exemplar**



**Study the information in the case study below and answer all the questions that follow.**

### **Bedzzz Ltd**

Bedzzz Ltd is a family-owned company, based near Strabane, which manufactures a limited range of high quality beds that are sold mainly on the UK market. It was formed 10 years ago and now employs 35 workers. The business has experienced steady growth in sales and profits. Consequently, shareholders have always been rewarded with substantial dividends. These are necessary to ensure that shareholders continue to invest in the company and also to attract new investment.

Bedzzz Ltd is extremely proud of its corporate culture. Its mission statement, “We always do our best to help our customers rest,” is displayed prominently throughout the factory and in all its sales brochures. The company is committed to using environmentally friendly materials of the highest quality and to reducing its carbon footprint. All its beds are 100% recyclable and it operates a disposal service for old beds and mattresses. Bedzzz Ltd has won a number of awards which recognise its environmental efforts.

Financial information relating to Bedzzz Ltd is shown in **Table 1** below:

**Table 1: Extracts of financial information relating to Bedzzz Ltd**

<b>Accounting information for year ending 31 March</b>	<b>2018 £</b>	<b>2017 £</b>
<b>Income Statement</b>		
Sales Revenue	4,064,000	3,670,000
Gross Profit	2,147,000	1,835,000
Expenses	1,745,000	1,445,000
Net Profit	402,000	390,000
Ordinary Dividends	400,000	390,000
<b>Statement of Financial Position</b>		
Non-current Assets	1,350,000	1,096,000
Current Assets	642,000	594,000
Total Assets	1,992,000	1,690,000
<b>Equity</b>		
Share Capital	200,000	200,000
Retained Earnings	92,000	90,000
Total Equity	292,000	290,000
<b>Liabilities</b>		
Non-current Liabilities	1,180,000	1,070,000
Current Liabilities	520,000	330,000
Total Liabilities	1,700,000	1,400,000
Total Equity & Liabilities	1,992,000	1,690,000

In April 2018, the Board of Directors of Bedzzz Ltd, concerned about low workforce morale, growing levels of employee absenteeism and demands for higher wages, decided to recruit a new Managing Director. Recognising that there was a shortage of specialist management experience in the business, the Board appointed Dan Hill, the first non-family member to hold the position.

Highly qualified and with an autocratic reputation, Dan managed, during his interview, to convince the Board members that Bedzzz Ltd was not performing as well as they thought. He referred to Elkington's Triple Bottom Line and also suggested that the business had a limited product range. He was also concerned about the rising level of current liabilities which was mainly due to the bank overdraft rising by £190,000 to purchase inventories and fund the purchase of some non-current assets. The Board were impressed by Dan's vision for the company.

Shortly after his appointment, Dan put forward an ambitious plan to begin producing a range of collapsible camp beds. Although this would require upgrading part of the factory and the purchase of new machinery, Dan felt that the business could gain significantly from internal economies of scale. He identified two possible machines that would be suitable for his plans and produced forecast sales figures for each. These are shown in **Table 2** below:

**Table 2: Cost and Sales Revenue forecasts relating to new machinery in Bedzzz Ltd**

<b>Machine A</b>	<b>(£000)</b>	<b>Machine B</b>	<b>(£000)</b>
Cost	(200)	Cost	(600)
Net Cash Inflows		Net Cash Inflows	
Year 1	80	Year 1	200
Year 2	80	Year 2	200
Year 3	60	Year 3	200
Year 4	60	Year 4	200

Dan calculated the Payback period for Machine A to be two years and eight months, and for Machine B to be three years, respectively, which fell within the four-year project lifespan. However, he acknowledged that the higher quality camp beds produced by Machine B was a riskier market segment to target than the more basic beds produced by Machine A.

At their monthly meeting, the Board of Directors were easily convinced that Bedzzz Ltd had to expand its product range but debated which machine might be the better option and what might be the best source of finance. Some board members favoured applying for a bank loan, which currently charges 5% interest per annum. Others suggested financing the machine by reinvesting profits for a few years and not paying any dividends to shareholders.

Dan was indifferent to which source of finance was used. He was more concerned about how he was going to persuade employees to undertake the additional training required to operate the new machinery. He was also concerned about the current financial position, particularly the current ratio, and how it might impact on the strategic plan for Bedzzz Ltd.

**Q1a** Using the case study information, explain one way in which Bedzzz Ltd might use its mission statement. [4]

**The above question could not be exemplified as the candidate's permission could not be obtained.**

**Q1b** Explain any **two** elements of Elkington's Triple Bottom Line model using the case study information. [6]

**The above question could not be exemplified as the candidate's permission could not be obtained.**

**Q2** Evaluate the impact on Bedzzz Ltd of the conflict between shareholders seeking to maximise dividends and employees seeking to secure higher wages. [15]

**The above question could not be exemplified as the candidate's permission could not be obtained.**

**Q3** Evaluate an advantage and a limitation of the Payback method of investment appraisal to Bedzzz Ltd when deciding which machine to invest in. [20]

### **Student's response**

*Payback is a method of investment appraisal which calculates how long a project will take to pay back its initial investment. After this period, it will then start being profitable.*

*An advantage of payback as a method of investment appraisal is that it is a fairly simple method to carry out which doesn't require specialist professionals to be hired. For example all Dan had to do was write down the cost of each machine to produce beds and estimate what profit it would make each year and then count up each year until it covered the initial cost, overall with Machine A coming out at 2 years 8 months and Machine B three years. As a result, Dan is able to make effective decisions by himself without the help of a professional. This leads to decreased costs for the business as they do not need to hire an accountant to work this out and therefore they are able to actually save money for when it comes to actually implementing one of these machinery options which overall is good, effective cost reducing decision making. However, a flaw with this method of investment approval is that it doesn't actually take into account how much profit you'd actually be making after the pay back period. For example, Machine A takes longer to pay back but Machine B actually will make more profit even though the payback period is longer. As a result, this could lead to poor decision making as Bedzzz may not think of the long term implications of the decision made and therefore they may lose at on profit.*

*A limitation of using payback as a method of investment appraisal is that it does not take into account qualitative factors which may influence decision making, it only measures quantitative data, for example, they may opt for Machine A as that has the shorter payback period but Machine B produces higher quality camp beds than Machine A which is a qualitative factor to consider. As customers will want good quality assured beds. As a result, they may leave at a part of vital decision making which may cost them in the long run for example they may have to make repairs if they opt for Machine A as it has lower quality. This may lead to increased costs for the business and therefore this may eat into their profit meaning it actually may increase payback time depending on which option they take. However, payback as a method of investment appraisal is a good starting point and good bench mark because it is easily carried out, so it is worth while working it out because it could lead to the starting point of effective decision making particularly if the cost of machinery is fairly low anyway.*

*In conclusion, overall, I think payback is a good method of investment approval to use for Bedzzz as it is a good starting point because it is a fairly 'simple method to work at without needing to hire a professional to work it out for them, ultimately reducing costs, as they do not need to hire professionals. However, it doesn't take qualitative factors into account for example quality which may lead to ineffective decision making as if they opt for Machine A – the lowest payback time, quality may have to be compromised but customers will want to pay for good quality beds.*

*I recommend that Bedzzz use payback as a method of investment appraisal but also use qualitative factors and possibly NPV as this takes into account the time value of money and using these 3 methods together will get you the most effective decision.*

### **Examiner's comments**

The student was asked to give an advantage and a disadvantage to Bedzzz Ltd of using the Payback method of investment appraisal when deciding to buy either Machine A or Machine B.

The student stated that using Payback is a simple process to compute to aid Bedzzz Ltd in deciding which machine to buy and they will not need professional guidance and therefore this means decreased costs. The student explained how to compute the payback period for each machine. Two years and eight months for Machine A and three years for machine B. Good for decision making. A flaw for Payback is that it does not consider payments after the payback period, comparing Machine A and Machine B, does not consider anything after payback period.

The limitation of Payback is that does not consider qualitative factors, only quantitative factors, which can influence decisions. Bedzzz Ltd only considers Machine A shorter payback period and may not consider Machine B which produces better quality assured beds. Quite possible that additional future costs may be required for Machine A, being a lower quality machine and increase its costs and therefore its payback period.

Payback is a good benchmark, starting point, for effective decision making. Students states that Payback could be used a starting point for decision making but should be used in conjunction with qualitative factors and NPV which uses time value for money to give a more effective decision.

The student's knowledge and understanding of Payback was deemed excellent. The application of data from the case study regarding Table 2 was deemed excellent. The advantage and limitation analysis of the payback method was deemed excellent. The evaluation of each point made and the final judgement was deemed excellent.

The response was given 20 marks.

**Q4** Evaluate the sources of finance proposed by the directors of Bedzzz Ltd to finance the purchase of their new machine. [20]

**The above question could not be exemplified as the candidate's permission could not be obtained.**

- Q5** Evaluate the financial performance of Bedzzz Ltd for the period 2017 to 2018, using the appropriate accounting ratios, taking the information from Table 1. [25]

### Student's response

ratio

$$\text{Gross profit \%} = \frac{GP}{SR} \times 100$$

$$2017 = \frac{1,835,000}{3,670,000} \times 100 = 50\% \quad 2018 = \frac{2,147,000}{4,064,000} \times 100 = 52.8\%$$

$$\text{Net profit \%} = \frac{NP}{SR} \times 100$$

$$2017 = \frac{390,000}{3,670,000} \times 100 = 10.6\% \quad 2018 = \frac{402,000}{4,064,000} \times 100 = 9.89\%$$

$$\text{ROCE} = \frac{NP}{TA - CL} \times 100$$

$$2017 = \frac{390,000}{1,690,000 - 330,000} \times 100 = 28.7\%$$

$$2018 = \frac{402,000}{1,992,000 - 520,000} \times 100 = 27.3\%$$

*Accounting ratios are beneficial to a business when analysing financial performance as 2 sets of data can be compared, helping to establish the current state of the business and identify where improvements are required.*

*The performance ratio of, 'Gross Profit percentage', portrays to a firm its total profits without expenses included in the figure. From my calculation can see that from 2017 to 2018, Bedzzz LTD has increased their Gross profit from 50% to 53% (rounded to the nearest whole number). This indicates that the firm is steady and performing well within the market and very importantly not dropping their sales revenue. This means that the company can continue to invest, for example in environmentally friendly material, leading to increased competitive edge and advantage over market rivals. Therefore, more customers may be attracted, possibly boosting gross profit further.*

*However, gross profit percentage does not account for expenses within the business and may be used as a; 'window dressing', figure in income statements and statements of financial position. This can make a business think it is performing*

*better than reality, possibly leading to failing investments and bankruptcy. Therefore it is essential to use this performance ratio in conjunction with others.*

*The next profit percentage shows profits after costs are removed. In Bedzzz LTD, the net profit percentage dropped from 10.6% in 2017 to 9.9% in 2018. This indicates an increase in costs for the business, possibly in production or through investments. It is important to note that this is a good figure and that if maintained the firm will be performing well. As money may have been invested explaining the decrease, the company may see the rewards in future accounting ratios, for example through the collapsible bed scheme. Increasing costs can lead to new products like machinery and an improvement in working conditions, therefore a worthy cause for the fall in percentage.*

*However, costs may be rising due to increased wastage and reduced efficiency. As the figure does not give exact details it is hard to determine the sole cause. To avoid further decreases the firm should cut back on waste, assess outflows and try to increase productivity. Otherwise this may lead to less money to pay employees and rent, therefore debts can sky rocket.*

*The return on capital employed shows the return on investment and liabilities. Any figure over 20% is very good and Bedzzz LTD achieved 28.7% in 2017 and 27.3% in 2018. These figures vary only slightly and show that the company are achieving a good return on their finances, such as shareholders capital. Bedzzz LTD should aim to maintain these figures and improve them through continued innovation and marketing which can lead to increased customer basis with more potential return on finances.*

*However, the figure did slightly drop from 28.7% to 27.3% in the year, indicating less return. If this continues to fall, revenue may be lost and it may be harder to obtain capital from shareholders and/or financial institutions, therefore running the company out of business.*

*Overall I believe these ratios portray Bedzzz LTD in a strong and maintained financial performance position from 2017–2018. All figures calculated back to my conclusion and any decrease between the years was small and may be due to external changes. This must be maintained by the company to survive and grow. The accounting ratios show a simple figure which makes it easy to compare the difference in the performance over time, but depends largely on accuracy. In addition, these ratios can be used to compare performance in relation to competitors.*

## Examiner's comments

The student was asked to evaluate Bedzzz Ltd financial performance using ratios over the period 2017 to 2018. Three ratios were required to be computed correctly and evaluated with respect to Bedzzz Ltd financial statements in Table 1.

The student computed three ratios for the year 2017 and 2018. The ratios computed were Gross Profit %, Net Profit% and ROCE and the student showed their workings. All three computations were correct.

Gross Profit Percentage	2017	50%	2018	53%
-------------------------	------	-----	------	-----

Gross Profit % had increased from 50% in 2017 to 53% in 2018. The student concluded that Bedzzz Ltd was performing well with Sales Revenue increasing. Bedzzz Ltd will continue to purchase environmentally friendly materials giving them a competitive edge over their market rivals, boosting sales and gross profit. However Gross Profit % should be used in comparison with same type businesses in the industry to ensure no window dressing or positive reporting.

Net Profit Percentage	2017	10.6%	2018	9.9%
-----------------------	------	-------	------	------

Net Profit % dropped from 10.6% to 9.9% between 2017 and 2018, indicating increases in expenses/costs. However 10% shows they are performing well and the increase in costs may have been due to investments. However the increased costs in 2018 will reduce in 2019 because of the new machinery in the collapsible bed scheme. The Increased costs may have been due to improvements in working conditions or new products. However Costs could also be increasing due to increased wastage and inefficiency. Figures do not show the exact reasons why costs increase but Bedzzz Ltd must cut back on waste and increase productivity otherwise costs will rise.

ROCE	2017	28.7%	2018	27.3%
------	------	-------	------	-------

The student suggests that a figure over 20% for ROCE is good. Bedzzz Ltd achieved 28.7% in 2017 and 27.3% in 2018 with Bedzzz Ltd achieving a good return on its investment with a slightly lower ROCE in 2018. Bedzzz Ltd should attempt to keep or retain this high return or improve them. The student suggests that increased innovation and marketing could lead to increased customer and brand awareness with increased profits. However the reduction in ROCE could indicate that future capital may be difficult to obtain from shareholders and banks, although it is much better than bank interest.

The student states that Bedzzz Ltd is in a strong financial position in 2018. The differences in the ratios were small and may be due to external changes. The ratios must be maintained to survive and grow. The ratios can be compared over time and compared with competitors.

This student's knowledge and understanding of the question, the computations of each of the three ratios for each of the years 2017 and 2018, taking from Bedzzz Ltd.'s financial data was deemed to be excellent. The correct figures extracted from

table 1 and the correct calculations of each of the three ratios were deemed to be excellent. The analysis of each ratio and its effects on Bedzzz Ltd.'s financial performance was deemed to be excellent. The evaluation of Bedzzz Ltd.'s financial performance based on the analysis of the three ratios was deemed to be excellent.

The examiner gave this student's response 25 marks.



**GCE: A2 Business Studies**

**ABU21: The Competitive Business  
Environment**

**Grade: A Exemplar**



**The original source material in the examination paper was not granted copyright clearance and cannot be reproduced in this document. However candidate responses and commentaries are included.**

**Using the information provided and your own knowledge and understanding, answer all six questions. Show your workings as appropriate.**

**Q1** Explain **two reasons** why a short chain of command may be beneficial to T G Eakin Ltd. [6]

### **Student's response**

*A short chain of command may be beneficial to a business such as TG Eakin LTD as it improves communication throughout the business. From the case study we see that TG Eakin LTD agree and realise a short chain of command "promotes quicker, better and more accurate communication." This would be beneficial to the business as important or even just day to day normal decisions can be made at a much quicker pace than that of a bigger chain of command. This leads to an increase in efficiency in the business as due to the short chain of command, decisions can be made quickly and then employees can move with the rest of their work, instead of wasting valuable work time on one decision. Therefore, the business not only pick up efficiency and productivity but a competitive advantage could be achieved due to no time being lost, unlike other businesses who may waste their time on decisions due to their larger chain of command.*

*Another benefit of TG Eakin LTD having a short chain of command would be the fact that it motivates employees. From the case study, we see that "Managers are less remote which encourages delegation and this allows for higher levels of motivation among its staff." This could be beneficial to the TG Eakin as employees feel they have a sense of identity in the business and don't feel like they are being pushed to the fringes of the business. This leads to higher levels of productivity and efficiency within employees as they want to work and work at a high standard as they feel respected in the business. Therefore, quality of the product/service of TG Eakin LTD should rise as since managers aren't remote they can always check if the standard required from employees is being met. Also, TG Eakin's labour turnover should be a small percentage as many employees will feel extremely happy with their job and content due to the fact delegation is also available, giving employees some sort of creative license/freedom which is exciting as they work to impress.*

## Examiner's comments

The student was asked to give two reasons why a short chain of command may be beneficial to T G Eakin Ltd.

The student stated the reason given by the case study, T G Eakin agree and realise a short chain of command 'promotes quicker better and more accurate communication'. This would mean that day to day decisions can be made at a much quicker pace than that of a bigger chain of command. This leads to an increase in efficiency in the business.

The second reason is also from the case study, that 'managers are less remote which encourages delegation and this allows for higher levels of motivation among its staff'. This could be beneficial to T G Eakin as employees feel they have a sense of identity in the business and this leads to higher levels of productivity and efficiency as they feel respected in the business. The quality of the work will also increase.

The student achieved full six marks.

**Q2** Analyse **two** of the global marketing issues to be addressed by T G Eakin Ltd, which enable it to perform well in its global markets. [9]

## Student's response

*One of the global marketing issues to be addressed by TG Eakin LTD, which enable it to perform well in its global markets is the idea of "product pricing strategies". From the case study, we see that T G Eakin aim to increase their profits as their sales revenue decreased in March 2016. This means that product pricing strategies for global marketing is extremely important as businesses need to know what other countries are willing to pay or aren't willing to pay. This leads to TG Eakin spending valuable money on researching, marketing, and analysing as they work out what different countries would pay for a TG Eakin LTD service. Therefore, this is an extremely important issue when considering global markets as if they set their prices at the wrong price, they will not be making the profit they could be, which is disadvantageous to the business. However, it could be argued that this could be a trial run/trial and error, and maybe TG Eakin should set their prices relatively low when entering the global market to build customer want and excitement, then gradually set a higher price once established.*

*Another global marketing issue to be addressed by TG Eakin LTD is the "use of online technologies" From the case study, it's evident they recognise the importance of "online technologies" in "marketing". This could be disadvantageous as this could be extremely costly for TG Eakin LTD. This could lead to money being spent on technology when there is no guarantee of success of it and could be used in other departments. Therefore, the business needs to research into the technologies; picking the most beneficial and cost effective option. However, it could be argued*

*that in todays society and especially in business that the investment of online technologies is extremely beneficial and TG Eakin should look into it as it allows faster communication, better productivity and increased efficiency.*

### **Examiner's comments**

The student was given five issues to consider in the stimulus but had to select only two from the case study to consider. The student opted for product pricing strategies and use of online technologies.

From the case study we see that T G Eakin aim to increase their profits by increasing prices as their sales revenues have decreased slightly. This will force T G Eakin to spend monies on researching, marketing and analysing each different countries pricing strategy. Setting the wrong price will affect the profits. T G Eakin should set their prices relatively low to enter the global market in order to build customer demand and increase prices gradually once established.

From the case study, T G Eakin Ltd recognise the importance of 'online 'marketing' which is extremely costly. Monies spent on technology give no guarantee of success Therefore, the business needs to research into the technologies, picking the most beneficial and cost effective option. However, online technologies are beneficial and T G Eakin should invest as it allows faster communication, better productivity and increased efficiency.

The student's knowledge and understanding of the two global marketing issues was deemed excellent as was the data taken from the case study as application. The analysis of both points was deemed excellent as well.

This response was awarded the full 9 marks

**Q3** Evaluate how fluctuations in the sterling/euro exchange rate (shown in Figure 3) might have affected the financial position of T G Eakin Ltd. [15]

**The above question could not be exemplified as the candidate's permission could not be obtained.**

**Q4** Evaluate franchising as a method of entering global markets by T G Eakin Ltd. [20]

### Student's response

*Franchising is the leasing of the name of an established to a franchisee who aims to run the new store.*

*One advantage of using franchising as a method of entering global markets is there is a higher degree of success and lower risk of failure with an established brand. A new business would require substantial amount of capital to start up a new business in a global market as it is not a well known brand. There is no guarantee there would be demand for it in the domestic or foreign market. However as T G Eakin has been open since 1974 it has grown through the acquisition of other businesses. Therefore, T G Eakin are positive that there is a demand for products in wound care. Through this acquisition of businesses, T G Eakin Ltd acquired a global reputation on for excellence, therefore their strong corporate image, displayed a good probability that there brand would be successful. Therefore, franchising was a beneficial way of gaining access to global markets as they were already aware of the business positive image as it held a strong place in the competition. This allowed the franchise to be a success. However, T G Eakin only receive a small profit from franchising into global markets. Had the business set up the business in the foreign markets themselves they would benefit from all the profits. Consequently, franchising in selling the brand of a business to an investor who then reaps the rewards. T G Eakin receive royalties which are only a small percentage of the over all profits. They do not fully experience the success in financial means.*

*However, franchising as a method of entering foreign markets would mean that T G Eakin would experience a loss of control over the new franchises opened Eakin Healthcare BU and Eakin GmbH which could damage the reputation. Franchising means letting the investors manage and run the business in Netherlands and Germany, whereby the owners of T C Eakin would not be there on a day to day basis overlooking the daily running of the business. Therefore there is a possibility than the reputation could suffer in the global market if the business is not ran efficiently. Therefore this could harm the overall brand image and reduce their profitability as a result of less demand due to the negative publicity. Therefore, managers allow or the possibility of tainting their brand through using franchising as a method of entering global markets.*

*However, franchising by entering global markets by T G Eakin may be beneficial way of expanding globally as this enable T G Eakin to increase the awareness of their brand and build up customer loyalty. This can be done with the owners focusing on thje control of the original business and not having the over stretch themselves by running both companies. Handling over control would ensure both franchises are ran efficiently to become successful in foreign markets and achieve its corporate objective of growth in sales revenue.*

*Overall franchising would be a success way of entering global markets as T G Eakin will receive royalties from the profits and will increase awareness of the brand and build up a strong corporate image. However it depends on the ability of the franchisee to run the business without damaging its reputation eg making different decisions, poor customer quality. Overall it will be more likely to succeed as it is already an established brand, which should make it easier to enter global markets.*

### **Examiner's comments**

The question is asking students to evaluate the method of franchising as a means to expand into global markets for T G Eakin Ltd.

Franchising as a method of entering global markets has a high degree of success and lower risk of failure with an established brand. A new business would require substantial capital to start up a new business in a global market if not a well-known brand. There is no guarantee of demand in export countries. T G Eakin by exporting will increase the awareness of their brand and build up customer loyalty.

T G Eakin Ltd acquired a global reputation for excellence and the brand could be successful. However, T G Eakin will only receive a small profit from franchisers from royalties. Had they set up the business in themselves they would receive all the profits. The Franchisee reaps the rewards.

T G Eakin could experience a loss of control over their new franchises which could damage their reputation. Franchisees manage and run the business in Netherlands and Germany, on a day to day basis. T G Eakin's reputation could suffer in the global market if the business is managed inefficiently and could harm the overall brand image with negative publicity which could reduce their profits.

By controlling the business together, both franchisor and franchisee, would ensure that the franchises were managed effectively and efficiently in foreign markets and achieve its corporate objective of growth in sales revenue.

The student's knowledge and understanding of franchising was deemed as excellent using data from the case study to back up their arguments. The analysis of their points, their chain of reasoning was deemed excellent. Their evaluation and final conclusion on franchising was deemed excellent.

This student was awarded the full marks.

**Q5** Evaluate the impact of its ethical policy as a source of competitive advantage to T G Eakin Ltd. [20]

### Student's response

*An ethical policy means that a company will be acting in an environmentally and social way and they may refer Elington's Triple Bottom Line.*

*An advantage of an ethical policy is an increased corporate image, thus maintaining and enhancing TG's global reputation for excellence in healthcare. If TG are seen to be minimising waste and recycling waste from its manufacturing operations, This will mean that customers will purchase their cohesive seals/slims from TG, due to feeling better about themselves about buying from a socially responsible firm. This will increase TG's SR of £27,746 000 due to increased sales, thus leading to higher profit margins, which can be used to facilitate TG's objective of growth, by investing in machinery that will increase productivity, thus increasing efficiency and enable them to operate more cost effectively, which is TG's values and beliefs.*

*However, having an ethical policy increases costs. An increase in costs will be experienced when implementing ethical responsibilities due to new manufacturing procedures concerning waste emissions, such as the careful storage, use and handling of necessary chemicals, efficiently using energy sources and recycling. Increased costs may mean that cashflow problems may occur, which could result in a shortage of working capital and employee's wages not being paid. This goes against their values of valuing their employees, and absenteeism could be the result. This will decrease productivity in the manufacturing of slims, thus cutting profit margins.*

*Another advantage is increased employee motivation. The 50 employees will want to work for an ethical firm, who takes care of the environment by minimising waste and recycling. Therefore, employees feel proud to work for TG, meaning their labour turnover will be decreased. This means that employees will work there for longer, resulting in economies of experience. More skilled employees excellent knowledge of the medical industry is likely to result in managers being innovative and designing new products, which will enable change. These are TG's values and beliefs. Innovative products, give TGs a complete differentiated advantage, making them more dominant in the medical device market, thus increasing their market share and therefore competitiveness.*

*However, a disadvantage is due to the initial costs, shareholder's dividends may be reduced. As TG is an Ltd, family and friends will have shares in it. Due to costs with implementing different energy sources and having a recycling policy, profits will be decreased, meaning dividends may not be as high as TG shareholders were expecting. This will result in unhappy shareholders meaning, they may want to sell their shares back to TG, thus decreasing share capital. Decrease share capital will result in an increase in bank loans with heavy interest rates for investment. Thereby,*

*future net profits of £16,471,000 will be reduced, meaning their advertising in medical journals may have to decrease, decreasing brand awareness; thus sales.*

*To conclude, I think that TG should have an ethical policy the Directors understand it's necessary and it will improve their corporate image, boosting sales and also employees will be more motivated, resulting in decreased labour turnover and economies of experience. However, as increased costs will be associated, I'd advise TG to communicate to shareholders and also refer to Carrol's CSR pyramid, making sure finance is available before ethical responsibilities are carried out.*

### **Examiner's comments**

The student is asked to evaluate the impact of T G Eakin Ltd.'s Ethical Policy as a source of competitive advantage.

An advantage to T G Eakin Ltd of having an ethical policy is increased corporate image and enhancing its global reputation for excellence in healthcare. Minimising waste and recycling waste from its manufacturing operations mean that its customers will purchase their cohesive seals/ from a socially responsible firm. Increased brand loyalty because of its ethical policy leads to higher profit margins. Additional profits can be used to facilitate T G Eakin Ltd's growth through investing in efficient and cost effective machinery to increase productivity. Ethical policies are costly to manage and implementing ethical processes due to new manufacturing procedures concerning waste emissions careful storage use of necessary pollutant chemicals, efficiently using energy sources and recycling.

An Ethical policy helps employee motivation. These are T G Eakin Ltd.'s values and beliefs. The 50 employees will want to work for an ethical firm who believe their responsibility is to take care of the environment by minimising its waste and recycling. T G Eakin Ltd.'s excellent knowledge of the medical industry results in innovation and designing new products which gives them a competitive differentiated advantage increasing their market share and therefore competitiveness.

T G's is a limited company with family shares. Additional costs on investing in different energy eco- friendly sources and machinery, profits will decrease with lesser dividends pay-outs. The investments can result in an increase in bank loans with heavy interest rates for investment. Therefore, future net profits of £16,471 will be reduced and advertising in medical journals may decrease T G Eakin Ltd.'s brand awareness.

The student's knowledge and understanding of the impacts of T G Eakin Ltd.'s Ethical Policy was deemed excellent. The data taken from the case study to back up their knowledge and understanding was deemed excellent. The student analysed the impacts with reference to competitive advantage and was deemed excellent. The evaluation and final conclusion of the impacts on T G Eakin's was deemed excellent.

This response was awarded 20 marks.

**Q6** Evaluate the use of T G Eakin Ltd's Business Plan in assisting the company to achieve its corporate objectives. [20]

### Student's response

*Business Plan is a plan of action by the business which is devised for a future time period. It will display key objectives and how key decisions will result in success of these objectives.*

*One advantage of a business plan for, T Eakin is that it assists in forward planning and ensures the best decisions are chosen. For example, their key focus is on new product innovation, therefore this will result in more effective decisions of their wide product range that they export to over 30 countries. More innovative products through high research and development will enable the Country Down based firm to become innovative and seen as innovators within the healthcare industry which will lead to increased awareness of the brand and positive word of mouth advertising due to their major selling point of innovation. This will result in increased investments by Shareholders, causing share prices to rise, that will therefore further their research budget. This will enable a barrier to entry to compete with T Eakin of a wide product range thus boosting their competitiveness. This will also attract higher quality staff leading to managerial economies of scale of high quality and further their differentiation advantage of one of worlds leading medical suppliers. However a disadvantage is that business plans are extremely time consuming and require a large depth of information and analysis to display operations. This will result in a lack of productivity and lead to a lack of overall sales such as £27,746,000 in 2016. A lack of sales will impact upon their profit which can be invested into new machinery to maintain productivity, as well as a lack of retrenchment and lack of focus on core business activities such as marketing. This will as a result limit their market presence, of a brand since 1974, and lead to a lower market share thus impacting their ability to charge a premium price.*

*Another disadvantage of a business plan for T G Eakin is that its releasing information which may be biased and not 100% reflective of the company. Inaccurate information due to pride in their company, for examples, figures of revenue gained within the their domestic UK market may be higher than reality. Poor decisions made by management will result in costly implications for this global and reputable brand such as further decline of domestic growth due to poor market research. A lack of growth will discourage shareholders resulting in a lack of investment which will lead to a lack of development resulting in job losses. Job losses will attract bad publicity and see a lack of trade credit from suppliers for raw materials to make cohesive products. A poor cash flow will lead to liquidation of assets to pay bills, ultimately limiting effectiveness and productivity. However an advantage is that it enables T.G Eakin to budget and plan, to apply pressure of lower raw materials prices and boost profile to more than £16,471,000. This more cost effective approach will enable a more cash to be available to company and achieve bulk buying economies of sales for materials, leading to a cost advantage which can*

*be passed to consumers over the 30 countries, thus boosting competitiveness and revenues. Increased purchasing will enable for benefits of growth and ultimately improve their expansion projects, that will in turn generate a higher market share which is a key corporate objective.*

*In conclusion I believe a business plan is a needed aspect as it will provide structure for business to follow key objectives whilst also budget and planning to become cost effective. However it is very time consuming, but depends on the amount of time and size of objectives. Overall I believe Business planning is great management tool through structure provided.*

### **Examiner's comments**

The student was asked to evaluate T G Eakin's Business Plan and how it helps it to achieve its corporate objectives laid out in the case study:

- Growth in its sales revenue
- Increased Profits
- Increased Market Share
- Expansion of its product ranges
- T G Eakin's business plan provides structure for it to follow its key objectives whilst also budget and planning to become cost effective.

One advantage of a business plan for T G Eakin is that it assists in forward planning. T G Eakin's key focus is new product innovation to increase its wide product range and export to over 30 countries. Innovative products in the healthcare industry will lead to increased brand awareness. Innovation is a barrier to entry to competitors of T G Eakin Ltd. However, a disadvantage is that business plans are extremely time consuming and require a large depth of information and analysis to display operations approximately.

A Business Plan allows T G Eakin to budget, cutting costs by looking at cheaper alternatives for materials and expenses to increase its profits to more than £16.471million. Cost cutting will give T G Eakin's a more positive cash flow and bulk buying economies of scale, leading to cost advantages which can be passed to consumers over the 30 countries thus boosting competitiveness profits. Improving innovative new products can give greater market share which is a key corporate objective of T G Eakin Ltd.

T G Eakins lack of growth can discourage shareholders from future investment in new innovative products and can cause cash flow issues. A poor cash flow will lead to liquidation of assets to pay bills ultimately limiting effectiveness and productivity.

The student's knowledge and understanding of T G Eakin's Business Plan was deemed excellent. The data taken from the case study with regards to the business plan was deemed excellent. Analysis of the points discussed was deemed as excellent. The evaluation of T G Eakin's Business Plan as a means to achieving its corporate objective was deemed excellent.

The student's response was awarded 20 marks.

