

GCE



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

This is an exemplification of candidates' performance in GCE AS examinations (Summer 2017) to support the teaching and learning of the Business Studies specification.



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# EXEMPLIFYING EXAMINATION PERFORMANCE

## GCE Business Studies

### Introduction

These materials illustrate aspects of performance from the 2017 summer AS examination series of CCEA's revised GCE Specification in 2016.

Students' grade A responses are reproduced verbatim and are 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.

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Best wishes



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**GCE: AS Business Studies**

**SBU11 Introduction to Business**

**Grade: A Exemplar**

Answer **both** questions

**Q1** Study the information below and answer the questions that follow.

### **Boojum – Mexican Burrito Bar**

Andrew and David Maxwell, two local entrepreneurs, own shares in Boojum Limited – a quick service Mexican Burrito Bar specialising in serving homemade Mexican food in a casual environment. The business trades as a private limited company under the name Boojum.

Sample product prices at Boojum are show in **Fig. 1** below:

<b>Item</b>	<b>Price</b>
Vegetarian Burritos	£4.95
Chilli Con Carne Fajitas	£5.75
Shredded Pork Tacos	£5.75

**Fig. 1: Boojum Menu (Sample extract)**

Research suggests that burrito bar consumers tend to stop for very short periods of time to order and eat their food servings. They also prefer fresh healthy alternatives to the fast-food chains that dominate the High Street. Boojum has grown to become Ireland’s best-known Mexican quick service brand with five outlets on the island – two in Belfast and Dublin respectively and one in Galway. The owners of Boojum hope to increase profits and dividends through continued expansion in Ireland and the UK.

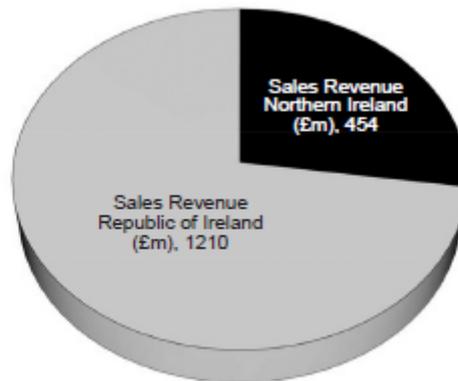
The management team at Boojum Limited continually review the human resources available to the business, recruiting experienced managers, ‘front of house’ crew and kitchen staff. The company advertises job vacancies on its website and applicants are encouraged to send their curriculum vitae (CV) to the company’s email address. In addition, recruitment mornings are held in Belfast.

Boojum require new applicants to be available for employment at short notice. The management team believes that online recruitment results in a shortened hiring process, access to a larger pool of applicants and a reduction in recruitment costs. However, a greater number of fraudulent online applications may arise.

Over the last decade, global food markets have experienced significant growth. In 2004, 4% of our imported foodstuffs came from Latin America, compared with 6% reported in 2014 (measured in terms of quantities imported).

Market research evidence shows a continued growth in the number of quick service restaurants (such as Boojum) in towns and cities nationally. Estimated total sales revenue reported for the Quick Service segment of the food retail sector in Ireland

during 2014 was £1,664 million. The annual sales revenue for the period can be broken down as shown in **Fig. 2** below:



**Fig. 2: Quick Service Annual Sales Revenue (£ millions) 2014**

**Q1a** Use Boojum Limited as an example to explain the importance of **Adding Value** in a business. [4]

### Student's response

*'Adding value' refers to the process of increasing the worth of a product by a business – essentially what a business does in turning raw materials into a final product. Boojum does this by buying ingredients and adding value by cooking them into 'homemade' Mexican dishes. Adding value is essential as it is how a business makes a profit. If they didn't add value, customers would not buy their products.*

### Examiner's comments

The question focused on the importance of adding value to Boojum which required evidence from the Boojum case study. The response gained full 4 marks.

The candidates were asked to explain the importance of adding value to Boojum. This candidate gave a definition of 'adding value', explaining its importance to Boojum as the increase in revenue and its profits showing how to increase revenue through its raw materials into homemade Mexican dishes.

**Q1b(i)** Using the information in **Fig. 2**, calculate (to two decimal places) Northern Ireland's percentage share of the Total Quick Service Annual Sales Revenue during 2014.  
Show your workings clearly. [2]

### Student's response

$$\frac{454}{1664} \times 100\% = 27.28\% \text{ share.}$$

### Examiner's comments

This question was a straight forward percentage calculation where the candidate was asked to calculate the percentage share. Accurate answers are written to two decimal places for full marks however, accurate calculations to whole numbers would still allow for 1 mark to be achieved. One mark can also be achieved if workings are correct but incorrect answers are calculated, thus the importance of workings.

**Q1b(ii)** Analyse **two** motives that entrepreneurs David and Andrew Maxwell might have had, prior to setting up Boojum Limited. [6]

### Student's response

*One motive David and Andrew Maxwell may have had to set up Boojum was financial gain. In the case study we learn that the brothers hope to increase profit and dividends through continued expansion in Ireland and the UK. They may have needed a job and money but had the skills in making food. This would allow them to earn money and in the future gain profits. In turn, they would be able to expand the business further and meet their goals.*

*Another motive for setting up Boojum may have been that they had an interest in the Mexican food industry and saw that in Ireland there was a market gap for this. In the case study we learn that global and international style foods are becoming increasingly popular and this would allow them to set up Boojum. If they set up something that is growing in popularity, sales are likely to be high. This allows for continued growth of the business and may allow them to become market leaders.*

## Examiner's comments

Two motives are identified, financial gain and a gap in the market. The motives are the discussed for analysis and are well developed. Application of the motives included the research data on quick service restaurants and increased growth and profits for financial gain. This response gain the full six marks.

**Q1c** Analyse three benefits of Boojum Limited operating as a private limited company. [10]

## Student's response

*One benefit of Boojum Limited operating as a private limited company is that the entrepreneurs will have limited liability which means that if the business was to become bankrupt they will only lose the money they have invested into the business and their personal belongings cannot be repossessed. We can see from the case study that the entrepreneurs 'own shares in Boojum Limited' which means that they can only lose this money if the business was to go bankrupt. This can mean that the entrepreneurs will be able to find other people to buy shares as there is less risk than in a sole trader business.*

*A second benefit is that Boojum Ltd could gain more money by offering shares to other friends and family. This money can go towards opening new outlets so that the business can expand as from the case study we can see that the entrepreneurs want 'continued expansion in Ireland and the UK' by offering shares Boojum Limited can increase their cash flow which can be used to purchase and set up new outlets in a different area which could increase the profits and dividends of Boojum Limited.*

*A third benefit is that private limited companies are more credit worthy compared to sole traders and therefore are more likely to be accepted for a bank loan and they could get lower interest rates. Boojum will be able to open in new towns and cities nationally in order to try and gain a competitive advantage as there is a 'continued growth in the number of quick service restaurants'. Boojum would be able to increase brand awareness which could attract more customers and would widen their customer base. It will allow Boojum to increase their profits if they open in an area where growth is already occurring.*

## Examiner's comments

Three benefits are identified; Limited Liability, offering shares to family and 'friends, and better access to finance; the three benefits are fully discussed, how shareholders are protected financially; finance from sale of shares for expansion and creditworthiness for cheaper bank loans. The application of the benefits includes the facts that both Andrew and David own shares in Boojum Ltd; continued expansion in Ireland, UK growth; in the number of quick service restaurants.

This response gained the full 10 marks, because it was deemed to have a well-focused and sound analysis of the three benefits to Boojum Ltd, comprehensive knowledge and understanding. Thorough and detailed use of relevant source material; excellent use of business language.

**Q1d** Evaluate the impact on Boojum Limited of using online technology as part of their recruitment process. [18]

## Student's response

*The recruitment process is the way in which a business brings in new staff into itself. In recent years this has moved from physical recruitment to online recruitment via the internet.*

*Technology greatly speeds up the recruitment process for Boojum. This is because the internet and various recruitment websites provide quick instant communication of various documents and information without relying on postal services which means a letter or piece of information could take weeks to arrive at its destination. Boojum wants applicants to send their cv to them. This can be done initially through technology as any websites let potential applicants load their cv's on the webpage. Because of this Boojum speeds up the process meaning that they will fill a gap in the business faster than say 10 - 15 years ago. Leading to the gap or new post being filled and normal service returned. Therefore Boojum can carry on trading as normal. However information on cv's can be lied about and Boojum would be wise to check out the truth behind applicants cv claims which delays time taken to get the applicant into the business.*

*The cost of the process is also reduced which is a huge impact on Boojum as it means they may put plenty of job advertisements on websites which can be free or cost very little which is hugely beneficial over the older use of using a newspaper which can be costly. Because of the reduced cost Boojum can save money and invest it into other areas of the business such as training which is costly so reduced costs are good. Leading to more applicants quicker for less. Therefore Boojum gets good quality staff for as least cost as possible.*

*To conclude technology has played a huge part in Boojum's recruitment process as it speeds it up and makes it cheaper. However, it would be remiss not to also see the downside such as fraudulent applicants so overall it has had a large impact on Boojum's recruitment process for good and bad reasons.*

## **Examiner's comments**

### **Knowledge and Understanding**

The student identified two impacts, speeds up the recruitment process and cost reduction for Boojum. The identification points and explanation were both deemed as excellent knowledge and understanding.

### **Application**

The student discussed the ability to make use of Boojum's website. This was deemed as satisfactory and there was some application from the stimulus.

### **Analysis**

The analysis of each impact is well developed suggesting that CV's can be completed online and returned to Boojum speeding up the process, and advertising costs will be reduced. This was deemed as excellent as there was clear chain reasoning.

### **Evaluation**

The student evaluated that CV's online cannot be trusted with reduced costs used for training. The final evaluation discusses fraudulent applicants. This was deemed as good evaluation as there was an informed judgement built on sound analysis.

Overall the candidate's responses are deemed as having covered all the Assessment Objectives at a Level 3 Good with excellent K&U and Analysis, bringing it in to the lower end of Level 4 with a mark of 14 marks.

Level 4 14 marks

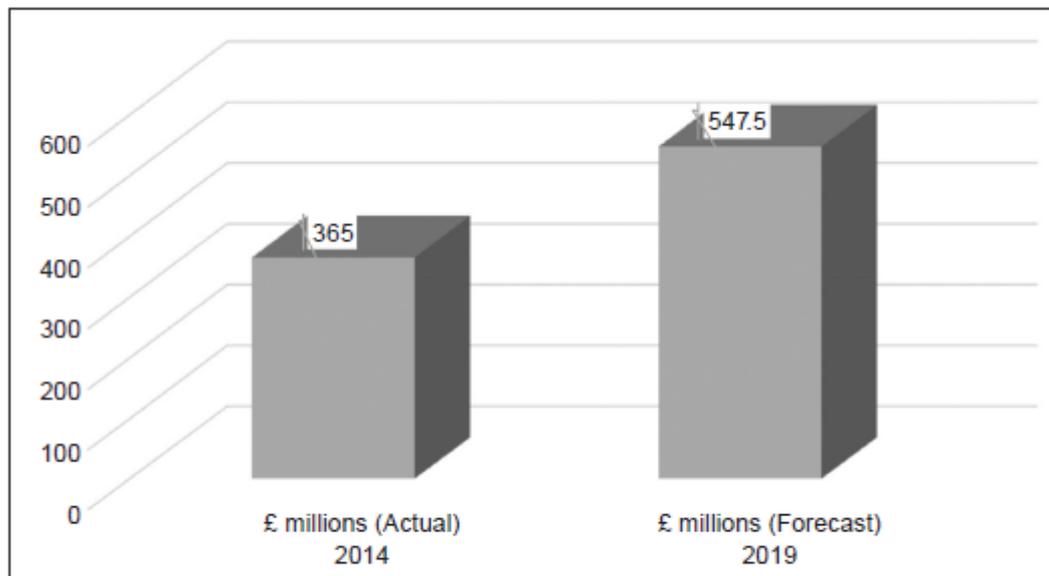
**Q2** Study the information below and answer the questions that follow.

### **Eat-Well Café**

Eat-Well Café was set up by Sophie in 2013 to offer organic food and beverages free from sugar, gluten and dairy products. Products include gluten-free bread, popcorn and muesli. Market research data suggests that the gluten-free market will continue to grow. This market sector continues to record the highest number of product launches of any food category.

Sophie's accountant advised her that sales revenues for the café in the last financial period totalled £300,000, and she is confident that her café will succeed in this niche market.

Recent statistical data (summarised in **Fig. 3** below) suggests that total sales revenues reported in respect of the UK 'Free From' market were £365m in 2014. This is forecast to increase to approximately £547.5m by 2019.



*Source: adapted from Mintel (2015)*

**Fig. 3: Actual and Forecasted Annual Sales Revenues of UK 'Free From' market**

Two factors which are likely to influence the increase in forecasted levels of demand for 'Free From' foods are increased levels of advertising by businesses in the sector and changes in disposable income. Sophie is planning to increase the amount spent on advertising from £6,789 to £9,000 in the next financial period. Furthermore, market research data has indicated that the average level of household disposable income is expected to rise from approximately £21,000 to over £22,500 over the next few years.

Sophie currently employs six full-time members of staff in the café. Her leadership style appears to be democratic in nature, since the ethos behind the business is one of ensuring every stakeholder feels valued. An implication of Sophie's democratic leadership style is that, the redistribution of power and authority between her and her

staff, may lead to greater staff involvement in the decision making process. Sophie believes that her leadership style will encourage collaborative problem solving, promote a creative working environment and facilitate better team working among the staff. However, Sophie is conscious that a democratic style of leadership may be time consuming. Sophie encourages her employees to engage in a healthy and active lifestyle.

She provides off-the-job training for her employees in relation to issues such as healthy eating, cooking, food hygiene and health and safety courses. Sophie has already spent £1,230 on staff training during this financial year (2017), and plans to increase this amount by 10% in the next financial year (2018).

**Q2a** Explain the term **niche market**, using Eat-Well Café as an example. [4]

### Student's response

*A niche market is a market that targets on specific sections of a whole market meaning it has a relatively low customer base but the customers are usually loyal as there is usually not very much competition. Eat-Well Café is in a niche market as it sells food and drinks free of sugar, gluten and dairy products this caters to the very healthy vegan/vegetarian side of the market who is relatively small compared to normal eaters so it is clear Eat-Well Café does operate in a niche market.*

### Examiner's comments

This response includes the required elements of a niche market, small target market with specific and defined segment, with little competition. Application of foods to healthy/vegan/vegetarian market. This response gained all four marks.

**Q2b(i)** Calculate (to the nearest whole number) the percentage change in annual sales revenues from 2014 to 2019 as shown in **Fig. 3**.

Show your workings clearly. [2]

### Student's response

$$\frac{\textit{change}}{\textit{original}} \qquad 547.5 - 365 = 182.5$$

$$\frac{182.5}{365} \times 100 = 50\%$$

*50% change in annual sales revenues from 2014 to 2019.*

### Examiner's comments

This was a straightforward percentage calculation. The candidate was asked to calculate the percentage change. Accurate answers are written to the nearest whole number for full marks. However, accurate calculations to one or two decimal places would allow for 1 mark to be achieved one mark can also be achieved if workings are correct but incorrect answers. This candidate received the full two marks.

**Q2b(ii)** Analyse the two factors mentioned in the case study, that may influence the demand for 'Free From' foods between 2014 and 2019. [6]

### Student's response

*One of the factors in the case study that may influence demand for 'Free From' foods between 2014 and 2018 is increased levels of advertising by businesses in the 'Free From' sector. An increase in advertising will increase the customer awareness to the market which could increase sales and profits. From the case study we can see that, 'Sophie is planning to increase the amount spent on advertising from £6,789 to £9,000.' This could increase the brand awareness of Eat-Well Café and could attract new customers to the business and lead to an increase in the profits which can be used for expansion.*

*A second factor mentioned in the case study is the changes in disposable income. If income rises the demand for products such as the 'Free From' range could increase. From the case study we can see that disposable income is expected to rise from approximately £21,000 to over £22,500 over the next few years. An increase in disposable income will mean that customers will have more money that they can afford to spend which could benefit niche market businesses such as Eat-Well Café which offer products at slightly higher prices. This could lead to an increase in the total sales revenue in years to come as people spend more money.*

### Examiner's comments

The candidate identified two factors that influences demand, Advertising and Disposable income. Both factors are fully discussed for analysis and well developed. Application of the factors included the advertising spend from £6,789 to £9,000, and expected disposable income increase from £21,500 to £22,500. The full six marks were awarded.

**Q2c** Analyse **three** benefits to Eat-Well Café of using **off-the-job** training. [10]

### Student's response

*One benefit of off-the-job training to Eat-Well Café is that the training is taken by a specialist which means that the Eat-Well Café employees will receive superior training for example on health and safety training. This is important for Eat-Well Café as it wants to provide the best service to their customers. We can see from the case study that Sophie spends, '£1230 on staff training' which includes lots of courses which means that Sophie's employees are receiving the most superior training in a range of skills. Eat-Well Café could become more productive as employees are more efficient and this can increase the customer satisfaction as their needs are being met effectively.*

*A second benefit of off-the-job training is that staff are more motivated as they feel valued by Sophie the owner of Eat-Well Café. From the case study we can see that Sophie plans to increase the amount of money spent on training by '10% in the next financial year.' The employees of Eat-Well Café will work more productively as they can see that the owner, Sophie is willing to spend money and time on improving the skills of her employees. This will reduce the labour turnover rates which will be less time consuming for Sophie and less costly as she will not have to recruit employees often.*

*A third benefit of off-the-job training Eat-Well Café is that the employees can learn new ideas and skills that can be used in the café for example, they could learn new recipes if they attend courses regarding to 'healthy eating and cooking.' These new ideas can be used at the Café and will be fresh as they will be from other people who are not from the Eat-Well Café. This could mean that the Eat-Well Café can meet customer needs more effectively by offering new products that they are not currently offering. This could increase the cashflow of the business and Sophie could have more money for expansion of the business by opening a new café for example.*

### Examiner's comments

Three benefits are identified, tutored by specialist, staff more motivated and learn new ideas and skills. Each benefit is fully discussed for analysis and is well developed. Application includes £1230 on staff training, increasing staff training costs by 10% healthy eating, cooking.

This response gained the full 10 marks because it was deemed to have a well-focused analysis of the three benefits, comprehensively knowledge and understanding, thorough and detailed use of source material and excellent use of business language.

**Q2d** Evaluate the impact of Sophie's democratic style of leadership on staff motivation. [18]

### Student's response

*A democratic leadership style is one which strongly involves everyone in the decision-making process.*

*Democratic leadership is fantastic for motivation as it makes people feel their opinion is really valued. This will grow a sense of collaboration and community in Sophie's small six member staff group. It allows people to see how/why decisions are being made which helps understanding among the staff. If employees understand why something is being done, they will accept it even if it isn't good. However, staff may not be fully educated on all issues, and may make poor decisions. If the business suffers as a result, this may demotivate the staff.*

*The main danger to motivation of employees by democratic leadership is the eventuality that Sophie will have to overrule her staff. They may, for example, vote for a pay rise when Sophie wishes to instead reinvest capital in the business. Here, we find conflict in two different stakeholders priorities – the owners' and employees'. If Sophie refuses to give in to the democratic decision, the staff will be quicker to become angry and upset than if they never had any say. This is catastrophic for motivation levels. However, staff involvement will still increase a sense of community among staff, which may hold the business in unity through difficulties other businesses would be torn apart by, such as unfortunate economic circumstances, or a bad media incident.*

*In conclusion, I believe Sophie should be cautious about continuing with her democratic leadership approach. She should take advantage of the motivation it provides, but should also manage expectations to avoid damage should the needs of the business ever outweigh those of the staff. It depends on the attitude and character of the staff. If they are very understanding, and dedicated to the business, this may not be an issue that arises. Overall, democratic leadership is a good motivator.*

## Examiner's comments

### **Knowledge and Understanding**

The student identified two impacts of Sophie's leadership on staff motivation, firstly staff involvement in decision making process making them feel valued and sense of community and secondly democratic leadership may not apply in all cases where decisions are to be made.

### **Application**

Application is limited to a discussion on small six members of staff.

### **Analysis**

First impact is well developed collaboration and community which helps understanding which impacts on staff motivation levels and second impact discusses the dangers of Sophie keeping to democratic leadership in all decisions and its effects on staff on motivation.

### **Evaluation**

Staff may make poor decisions which can ultimately affect the business and staff motivation. Staff involvement in decision making can help the business through difficult times such as economic or media incidents. The candidate advises Sophie to be cautious with her leadership approach as it does provide staff motivation, but her priority/objective is the business and these can outweigh motivation for staff.

Overall the candidate's responses are deemed as having covered the Assessment Objectives at Levels as follows; excellent K & U and Analysis and Evaluation with a Level 2 Satisfactory application, bringing it in to the lower end of Level 4 with 15 marks.

**GCE: AS Business Studies**

**SBU21 Growing the Business**

**Grade: A Exemplar**

## Q1 New car sales in Northern Ireland

**Table 1** shows the total number of new cars sold annually in Northern Ireland during 2014 and 2015 and projected sales for the years 2016 and 2017:

**Table 1: Annual New Car Sales in Northern Ireland**

	<b>Actual Sales 2014</b>	<b>Actual Sales 2015</b>	<b>Projected Sales 2016</b>	<b>Projected Sales 2017</b>
Total number of new cars sold per year	57 202	57 097	57 000	57 000

**Table 2** summarises the total number of vehicles sold during the month of January in 2015 and 2016 respectively:

**Table 2: New Car Sales in Northern Ireland**

	<b>January 2015</b>	<b>January 2016</b>
Number of new cars sold for the month	6 356	6 189

Although new car sales decreased, the two most popular models sold during January in both years were the Ford Fiesta and Volkswagen Golf. In January 2016 a new Ford Fiesta was priced at £10,245 whilst a new Volkswagen Golf was priced at £17,545. Both these models are very popular in the used-car market. This data reflects customer tastes indicating that smaller and more economical cars appear to be popular with Northern Ireland customers.

Daly's Garage is one of Belfast's longest serving car dealerships. A key marketing objective of many car dealerships would be to grow through increased sales to customers. Mr Daniel Daly, a director in the business, recently stated: "The entire industry in Northern Ireland is selling to a much smaller private retail market than the rest of the UK. Dealers in the rest of the UK have access to larger markets making it easier for them to offer bigger discounts to customers." A car dealer can use a range of pricing strategies to entice customers into purchasing a new car, including pricing policies, discounting, low interest rates (on hire purchase/leasing contracts) and generous trade-in allowances.

Primary market research information appears to suggest that the market for new car sales in Northern Ireland will remain virtually unchanged for the years 2016 and 2017 as shown in Table 1. This may be explained by the slower recovery of the Northern Ireland economy and continued uncertainty over jobs.

Mr Daly is considering some of the key elements of the marketing mix – price and promotion – in order to finalise the marketing plan for his business in the next trading period. A car dealer can employ a range of promotional strategies aimed at persuading a customer to buy a new car. Daly's Garage use their website and social

media facilities such as Facebook, Twitter and YouTube to promote their cars. A car dealer may also use other media channels including local newspapers and specialist trade publications such as *Autotrader* and Cars.com. Mr Daly is also planning to conduct market research using methods such as questionnaires, focus groups and observations to achieve his marketing objectives.

**Q1a(i)** Using the information in **Table 2** calculate the percentage decrease (rounded to two decimal places) in the number of new cars sold in January 2016 compared to January 2015. Show your workings clearly. [2]

### Student's response

$$\frac{6356-6189}{6356} \times 100 = 2.63\% \text{ decrease}$$

### Examiner's comments

This question was a straight forward percentage calculation where the candidate was asked to calculate the percentage decrease of new cars sold in January 2016 (6189 cars) compared to January 2015 (6356 cars). The accurate answer is -2.63% to gain full two marks. Accurate answers are written to two decimal places for full two marks. However, accurate calculations to whole numbers would still allow for 1 mark to be achieved. One mark can also be achieved if workings are correct but incorrect answers are calculated, thus the importance of shown workings

**Q1a(ii)** Using the information in **Table 1** and **Table 2** calculate the percentage of new cars sold in January 2015 (rounded to two decimal places) as a proportion of the total number of new cars sold during 2015. Show your workings clearly. [2]

### Student's response

$$\frac{6356}{57.097} \times 100 = 11.13\%$$

### Examiner's comments

This question was a straight forward percentage calculation where the candidate was asked to calculate the percentage of new cars sold in January 2015 (6356 cars) as a proportion of new cars sold in January 2016 (57,097 cars). The accurate answer is 11.13%. Accurate answers are written to two decimal places for the full two marks. However, accurate calculations to whole numbers would still allow for 1 mark to be achieved. One mark can also be achieved if workings are correct but incorrect answers are calculated, thus the importance of shown workings.

**Q1b** Analyse **two** ways in which the Northern Ireland car market may be segmented. [8]

### Student's response

*One way the Northern Ireland car market can be segmented is by using demography. For car buying this means segmenting first time buyers who tend to be between 17 – 25, and for example middle aged people 35 – 45 with family who may be looking 7-seaters. This will be a very expensive method of segmentation because it will allow business to use this information to form promotional strategies directed at certain age groups leading to them offering appealing deals to the target segment. Therefore this will help make more sales and increase revenue.*

*Another segmentation method they could use is by using socio-economic factors. For example they could segment couples with a double income and no children and know that they're interest would be in up-market 5 seaters. This is a beneficial method of segmentation as it will allow the business to exploit the information and concentrate on targeted promotion strategies which carry less risk because they know what the customer would be interested in based on income. This leads to an increase in customer interest and sales and therefore benefits the cash flow of the business.*

## Examiner's comments

Two ways are identified, Demography and Socio-Economic factors. Each way is discussed for analysis and are well developed, appealing deals and car sales based on income. Application of the ways included the research data on age groups, vehicle types, vehicle prices. This response gain the full eight marks.

**Q1c** Analyse **three** primary market research methods that Daly's Garage might use to maintain market share. [10]

## Student's response

*Daly's garage with use questionnaires which are given to people so they can answer questions to show their views and opinions on cars may be about what type of car is most suited. Daly can use this information to see which cars customers are most likely to purchase meaning he can buy these cars at a cheap price and sell them for a quick profit as they are high in demand like the Ford Fiesta or Volkswagon allowing him to maintain market share.*

*Daly's garage will also be using observation. Daly could observe customers who are at his dealership and see which cars are most suited to the customers and also allows him to see which cars are least popular. Therefore Daly can reduce the price of these cars so he can sell them and make some cash so he can purchase the more popular cars.*

*Daly's garage will also use focus groups. This allows Daly to see what potential customers want when they are looking to buy a new car. The focus group can discuss their favourite type of car model, favourite colour and also the prices they would be willing to pay. Therefore Daly is able to increase market share because he is meeting the needs of the customers and can therefore charge premium prices as customers might be willing to pay more to get exactly what they want.*

## Examiner's comments

Three primary research methods are identified; Questionnaires, Observation and Focus Groups. The three methods are fully discussed, how questionnaires help identify possible customers, observe customers in the showroom for potential sales and through focus groups identifying customer car needs. The application included cars makes, car prices, popular cars makes, and new cars.

This response gained 9 marks, because it was deemed to have a well-focused and sound analysis of the three primary methods, comprehensive knowledge and understanding. Application was good with good use of relevant source material and

good use of business language. For the full 10 marks, more specific application to the car market was required.

**Q1d** Evaluate the key elements of the marketing mix mentioned in the case study, which would enable Daly's Garage to increase its sales. [18]

### Student's response

*The first part of the marketing mix is price he can use different pricing strategies to entice the customer allowing him to increase sales. Daly uses pricing policies, discounting, low interest rates on hire purchase and leasing contracts and generous trade ins. This means that with all this he will increase his customer loyalty because if they need a new car in the future they'll most likely come here as they have got good value for money. Therefore this will lead to them recommending Daly to other people allowing him to gain more customers and increased sales. However, these pricing strategies could prevent Daly from making large profit margins as he is already selling cars at a low price because they are used so if he reduces it more with discounts might decrease profits.*

*The second part of the marketing mix is the promotion. Daly promotes his business through the use of Facebook, twitter and youtube and also local newspapers and specialist trade productions. This benefits Daly as his promotion strategies are cheap and allow him to target large amounts of people so more people can see what deals and discounts he is offering fairly easily. Making it much easier for Daly to persuade more customers to buy cars of him leading to his increased sales. However, Daly will need to hire someone with high experience in IT to run his online promotions and someone to update them every time a new car is for sale. Which means Daly will be spend high amounts of money on wages just to promote cars.*

*Based off these arguments I believe that these methods are good for Daly to allow him to increase sales because they are fairly cheap to implement and it persuades the customers to buy from him. However it might prevent him from growing his business quickly because of decrease profit margins.*

## Examiner's comments

### Knowledge and Understanding

The student identified the two key elements identified in the case study, Price and Promotion. The candidate suggests that Daly's pricing policies will entice the customer to purchase a car while its promotion will target large numbers of customers.

### Application

Application of price was its different pricing policies, discounting, low interest rates on hire purchase, leasing contracts and generous trade-ins.

Application of Promotion is using Facebook, twitter and YouTube, also local newspapers and specialist trade specialists.

### Analysis

The differing pricing policies is considered by the customer as value for money and will attract customer loyalty and recommendations, thus increasing sales and profits.

Promotion allows Daly's to target large numbers of people and promote their differing pricing policies to attract and persuade potential customers to purchases a car leading to increased profits.

### Evaluation

The candidate suggests that the Daly's low car prices and its many differing pricing policies reduce Daly's overall profits so any further pricing deals will reduce the profits further.

The candidate suggests that Daly's will require an IT specialist to run the online promotions and to update all records with new cars details, leading to increased wages and promotion costs.

Both methods are good for Daly's garages to increase sales because of low costs to implement and it persuades customers to purchases from them but both elements will decrease his overall profit margins and prevent him from growing the business quickly.

Overall the candidate's response is deemed as having covered all the Assessment Objectives, at Level 4, Excellent. For the full 18 marks a balanced judgement was required based on a clear focus built on effective analysis. In this instance the candidates evaluation is slightly contradictory based on analysis given.

Level 4 15 marks

## Q2 The 4G-Phone Shop

In March 2016, Paula Carr opened her own business called The 4G-Phone Shop. She sells new and refurbished mobile phones. Paula previously worked as a telephone engineer and is confident that she can meet the needs of her customers effectively. Her accountant (Dave) recently reported that the business had made a net profit of £12,000 during the year ended 31st March 2017.

As part of her planning process, Paula undertook some research into the prices of mobile phones. She also forecasted the costs related to the business and these are shown in **Table 3** below:

**Table 3: Forecasted Financial Data**

Average Selling Price per mobile phone	£275
Fixed Costs per year	£48,000
Variable Costs per mobile phone	£150

In addition, the accountant has identified that Paula has spent a large amount of money on advertising and has suggested she use social media as a means of gaining free publicity for the business. Paula's research has also shown that the use of social media appears to have an influence on a buyer's decision-making process. Furthermore, she spent £5,000 (in cash) on an upgrade of the computer system in the shop in order to make it more efficient. The accountant also observed that the current supplier did not appear to offer favourable payment terms to Paula.

Paula's accountant (Dave) has advised her to set a future annual profit of £24,000 to ensure the growth of her business.

Paula is confused when she discovers that her bank account is overdrawn by £1,000 despite the accountant having previously reported a net profit of £12,000. Dave has suggested that the construction of a cash flow forecast could be based on mobile phone sales forecasts, manipulation of current sales data, estimation of proposed expenses and calculation of monthly cash balances. He has also pointed out that forecasting techniques may be inaccurate as they may be based on estimates and may not reflect market conditions. Paula now realises that she must maintain a positive cash flow if the business is to succeed. In light of this advice, Paula is considering constructing a cash flow forecast for the future.

**Q2a(i)** Calculate the number of mobile phones that The 4G-Phone Shop would need to sell per year in order to break even. Show your workings clearly. [2]

### Student's response

$$\begin{aligned} BEP &= FC/\text{contribution per unit} \\ \text{Cont per unit} &= \text{selling price} - \text{VC per unit} \\ 275 - 150 &= 125 \end{aligned}$$

$$\begin{aligned} BEP &= 48000/125 \\ &= 384 \end{aligned}$$

### Examiner's comments

This question was a straight forward calculation where the candidate was asked to calculate 4G Phone Shop's breakeven point. The accurate answer is 384 mobile phones. Accurate answers are written to whole numbers to gain the full two marks. One mark can also be achieved if workings are correct but incorrect answers are calculated, thus the importance of shown workings.

**Q2a (ii)** Identify the number of mobile phones that Paula would need to sell per year, in order to obtain a target profit of £24,000. Show your workings clearly. [2]

### Student's response

$$\frac{\text{FC} + \text{DP}}{\text{cont per unit}}$$

$$\frac{48000+24000}{125} = 576$$

## Examiner's comments

This was a straightforward calculation where the candidate was asked to calculate the number of phones that 4G Phone Shop is required to sell to make a profit of £24,000. The accurate answer is 576 mobile phones. Accurate answers are written to the nearest whole number for full marks. However, accurate calculations to one or two decimal places would allow for 1 mark to be achieved one mark can also be achieved if workings are correct but incorrect answers. This candidate received the full two marks.

**Q2b** Analyse **two** reasons why Paula should use social media to promote The 4G-Phone Shop. [8]

## Student's response

*The first reason Paula should use social media to promote the business is because it is much cheaper. In the story it is suggested she should use social media as a means to gain free publicity. This means Paula can reduce costs as she is spending less on advertising meaning more money can be invested elsewhere like when she upgraded the computer system to make the shop more efficient.*

*Another reason Paula should use social media is because it allows her to reach a larger amount of people as most people use social media. In the story it shows that social media has an influence on the buyers decision making process. This means she might be able to increase her sales as she is targeting a larger amount of people which could help her meet the suggested annual profit of £24,000.*

## Examiner's comments

The two reasons that were identified by the candidate were Promotion and to target a larger market. Both these reasons are fully discussed for analysis, free promotion to reduce overall costs for further investment and increased sales through a larger market and increased profits. Both reasons were well developed. Application of the factors included gain free publicity and influences the buyer's decision making process therefore the full eight marks were awarded.

**Q2c** Analyse **three** methods that Paula could use to improve her cash flow. [10]

### Student's response

*A business can use hire purchase or leasing rather than purchasing out right in order to improve its cash flow. In the article we read that she spent £5,000 (in cash) on an upgrade of a computer system. For Paula this means that she can pay in instalments with hire purchase with low interest charges at regular payments. This will free up capital for the business to be spent on areas such as wages and paying suppliers so the business can continue to operate effectively and meets the needs of their customers. This is also paid in cash. She could have taken a loan which will have lower rates of interest than methods such as the bank overdraft.*

*A business can also switch their supplier in order to obtain longer periods of credit. In the article we read that the current supplier didn't offer favourable payment terms to Paula. If she obtains longer periods of credit, cash will continue to remain in the business until a later time. This can be reinvested within the business to reduce variable costs and fixed costs from £150 and £275 and obtain a greater net profit of £12000 during 2017.*

*A business can also use the capital invested in advertising to improve their cash flow. In the article we read that Paula spent larger amounts of money on advertising. This means that the cash will be retained within the business allowing her to continue with payments to suppliers and creditors. As mentioned social media can be used as a replacement as a means of gaining free publicity and further free up capital for a business such as the 4G Phone Shop.*

### Examiner's comments

Three methods are identified by the candidate, Hire Purchases or Leasing, switch suppliers and reduce advertising costs. Each method is fully discussed for analysis, not buying computer outright but Hire Purchase or lease which has the effect of reducing payments to instalments, switch suppliers with better favourable payment terms and reduce Advertising costs to retain monies. Each method is well developed. Application includes £5,000 for a computer; the current supplier did not offer favourable payments terms; and the fact that Paula spends large amounts of money on advertising.

This response gained the full 10 marks because it was deemed to have a well-focused and analysed of the three methods, comprehensive knowledge and understanding, thorough and detailed use of source material and excellent use of business language.

**Q2d** Evaluate the importance of a cash flow forecast to The 4G-Phone Shop. [18]

**Formula: (i) Breakeven Point (Units) = Fixed Costs/Contribution per unit**

$$(ii) \text{ Number of units to sell to achieve a desired profit} = \frac{\text{Fixed Costs} + \text{Desired Profit}}{\text{Contribution per unit}}$$

### Student's response

*Cash flow forecasts allows a business to see where it is short of cash and so they can raise finance to cover in advance. In the article we read that Dave has suggested the construction of a forecast and Paula realises she needs a positive cash flow. For the business this means that they can understand where they will be short of cash such as the month of paying the £5000 systems or extensive advertising Paula can arrange trade credit or a short term loan to ensure that she has cash to pay her employees, suppliers and allow the business to continue to operate normally.*

*Therefore the business will not be badly effected when an unexpected cost causes a negative cash flow. The firm can continue to sell their new and refurbished mobile phones and meet the needs of their customers. Therefore sales will increase which will further improve her cash flow causing inflows to soar. However, constructing a cash flow forecast can be time consuming and may be costly if she doesn't have the expertise required. This could cause the fixed cash of £48,000 to increase and reducing the net profit of £12000.*

*Cash flow forecasts are estimates and are subject to all sorts of external shocks. In the article we read that the accountant claims they are inaccurate and may not reflect market conditions. For Paula this means that she could make costly errors such as purchasing new equipment such as the computer system when the company does not have the capital to finance it. The company may obtain a negative cash flow and may fall into difficulty not being able to pay wages or suppliers. Changes in demand may also effect the cash flow but it doesn't consider this. A decrease in demand for a particular phone will lead to a decrease in sales meaning the data in the cash flow forecast inaccurate and so the forecast is meaningless. These mistakes will lead to a plummet in the profitability of the firm and may cause the break even point of 3389 phones to rise meaning they cant obtain the £24,000 target. She cant invest in the firm to further enhance her portfolio of products such as the refurbished phones. However, cash flow forecasts can allow a firm to focus on costs and reduce these to a minimum if the company can reduce the fixed and variable costs, funding will be freed up for other costly expansions such as advertising and upgrading equipment.*

*Based on these arguments I think that a cash flow forecast is important for a business. This is because it will ensure that the company can arrange finance in times of shortages and it can attempt to reduce costs. This is significant for the 4G phone shop as the freeing up of capital will allow the company to reinvest in prolonging the life cycle of their phone products to further meet the needs of customers. However, this depends on the accuracy of figures and the time spent creating it. So I recommend that the company employs a cash flow forecast but doesn't rely on it solely but use as a guide.*

## **Examiner's comments**

### **Knowledge and Understanding**

The student identified two aspects of Cash Flow, where it allows Dave to identify cash shortages and alert him to raise finance in advance and that Cash flows are only estimates and are subject to all sorts of external shocks, changes in demand

### **Application**

Application is the suggestion of the construction of a cash flow, costs including £5,000 systems, extensive advertising, new and refurbished phones, Fixed costs of £48,000 and Net Profit of £12,000, accountant claims cash flow inaccurate and may not reflect market conditions.

### **Analysis**

Paula can arrange trade credit or loans when required to pay bills to continue operations and make profits improving their cash flow. Inaccurate cash flows can cause errors, purchasing of new equipment, inability to pay suppliers therefore cash flows can be meaningless.

### **Evaluation**

Cash flow monitoring is time consuming and costly when expertise is required, causing the fixed costs to increase and profits to decrease.

Cash flows allow Dave to focus on costs and reduce to a minimum. If costs are reduced, then funding can be freed up for other costly expansions such as advertising and equipment.

Cash Flow is important especially in times of shortages and it can also be used to reduce costs, the freeing up of capital will allow for re-investment and prolong the product life cycles. However, the accuracy and time spent on creating a cash flow is important and they must create one but to use it as guide only.

Overall the candidate's response is deemed as having covered the Assessment Objectives at Level 4, Excellent.

Level 4 17 marks

