REDSPOT Fresh Minds New Thoughts

About O Level

BUSINESS STUDIES

(YEARLY)

About Teacher's Comments

This reveals the extra/relevant information that are not required as part of the model answers but to enhance the student's analytical skills in answering theory/structured questions.

period	**2011 to 2022**
contents	**June & November, Paper 1 & 2, Worked Solutions**
form	**Yearly**
compiled for	**O Levels**
special features	**Teacher's Comments**

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CLASSIFICATION

2012 - 2021

1 Understanding Business Activity

1.1 Business activity

J 2012/P1/Q3(a)	N 2012/P1/Q4(a,c)	N 2013/P1/Q4(a,b,d,e)	J 2014/P1/Q4(a)
N 2014/P2/Q5(a)	J 2015/P2/Q1(a)	N 2015/ P1/Q2(a)	J 2016/ P1/Q3(e)
J 2016/ P1/Q4(b)	N 2016/ P1/Q1(a)	N 2017/ P1/Q1(a)	N 2017/ P1/Q2(a)
N 2017/ P1/Q3(a)	N 2017/P2/Q2(a)	J 2018/ P1/Q1(b)	N 2018/ P1/Q1(a)
N 2018/ P1/Q2(a)	N 2018/ P1/Q3(a)	J 2019/ P1/Q1(a)	J 2019/P2/Q2(a)
N 2019/ P1/Q1(a)	J 2020/ P1/Q1(a)	J 2020/ P1/Q3(a)	J 2020/P2/Q2(a)
N 2020/ P1/Q3(e)	J 2021/ P1/Q4(a)	N 2021/ P1/Q1(a)	N 2021/ P1/Q2(e)

1.2 Classification of Business

N 2012/P1/Q5(a)	N 2016/P1/Q4(b)	J 2017/P1/Q4(b)

1.3 Enterprise, Business Growth and Size

J 2012/P1/Q2(b)	N 2012/P1/Q2(e)	N 2012/P2/Q2(a)	J 2013/P2/Q5(b)
J 2014/P1/Q1(e)	J 2015/P1/Q4(a)	N 2016/P1/Q4(a)	N 2017/P1/Q3(d)
J 2018/P1/Q3(a)	N 2018/P1/Q3(b)	J 2020/P1/Q4(b)	J 2020/P2/Q1(a)
N 2020/P2/Q3(a)	N 2021/P1/Q4(e)	N 2021/P2/Q1(a)	

1.4 Types of Business Organisation

J 2012/P2/Q1(a)	N 2012/P1/Q3(b)	N 2012/P1/Q5(c)	N 2012/P2/Q1(a)
J 2013/P1/Q1(c)	J 2013/P1/Q5(c)	N 2013/P2/Q1(a)	J 2014/P1/Q2(b)
J 2014/P2/Q1(a)	J 2014/P2/Q5(b)	N 2014/P1/Q1(a,d,e)	N 2014/P2/Q1(a)
J 2015/P1/Q2(a,d,e)	N 2015/P2/Q1(a)	J 2016/P1/Q3(d)	N 2016/P1/Q4(c)
N 2016/P2/Q1(a)	J 2017/P1/Q3(e)	J 2017/P2/Q3(a)	N 2017/P2/Q1(a)
J 2018/P1/Q1(a)	N 2018/P1/Q4(a)	J 2019/P1/Q4(e)	N 2019/P1/Q2(a)
N 2020/P1/Q2(c)	N 2020/P2/Q2(a)	J 2021/P1/Q1(d)	J 2021/P2/Q1(a)
N 2021/P1/Q4(a)	N 2021/P2/Q1(b)		

1.5 Business Objectives and Stakeholder Objectives

J 2012/P1/Q1(b)	N 2012/P1/Q2(b)	J 2013/P2/Q1(a)	J 2013/P2/Q2(a)
J 2014/P1/Q3(e)	N 2014/P1/Q1(c)	N 2014/P1/Q5(b)	N 2014/P2/Q4(a)
N 2015/P1/Q4(d)	J 2016/P2/Q1(a)	J 2016/P2/Q3(a)	N 2016/P1/Q1(d)
J 2017/P1/Q4(a)	J 2017/P2/Q2(b)	J 2018/P1/Q4(a)	J 2018/P2/Q2(b)
J 2019/P1/Q3(c)	J 2019/P2/Q1(b)	J 2019/P2/Q3(a)	N 2019/P1/Q1(d)
N 2019/P2/Q2(a)	J 2021/P1/Q3(e)		

2 People In Business

2.1 *Motivating Employees*

N 2012/P1/Q4(e)	N 2012/P2/Q4(b)	J 2013/P1/Q3(c)	J 2013/P2/Q4(a)
N 2013/P1/Q3(d)	N 2013/P1/Q5(d,e)	J 2014/P2/Q4(a)	N 2014/P1/Q1(b)
N 2014/P1/Q4(e)	J 2015/P1/Q4(e)	N 2015/P2/Q2(a)	J 2017/P1/Q4(e)
N 2017/P1/Q3(e)	J 2019/P2/Q3(b)	N 2021/P1/Q4(b,c)	J 2020/P2/Q3(b)

2.2 *Organisation and Management*

J 2012/P1/Q4(a,b,c)	J 2013/P1/Q1(d,e)	J 2013/P1/Q5(a)	N 2013/P1/Q5(a,b)
N 2013/P2/Q5(a)	J 2014/P1/Q1(a,c)	N 2014/P1/Q4(a,b)	N 2014/P1/Q5(a)
N 2014/P2/Q2	J 2016/P1/Q1(a,b,e)	J 2017/P1/Q4(d)	N 2017/P1/Q4(d,e)
J 2018/P2/Q1(a)	N 2018/P2/Q3(a)	J 2019/P1/Q2(b)	J 2019/P1/Q4(a)
N 2019/P2/Q2(b)	J 2020/P1/Q2(a)	J 2020/P1/Q3(b)	J 2021/P1/Q3(c)
N 2021/P2/Q4(a)			

2.3 *Recruitment, Selection and Training of Employees*

J 2012/P1/Q5(a,b,c)	J 2012/P2/Q3(b)	N 2012/P2/Q4(a)	N 2013/P2/Q2(a)
N 2013/P2/Q4(b)	J 2014/P1/Q2(e)	J 2015/P1/Q1(d)	J 2015/P1/Q4(c,d)
J 2015/P2/Q1(b)	N 2015/P1/Q3(c,d)	N 2015/P2/Q2(b)	N 2016/P1/Q4(e)
N 2016/P2/Q3(b)	J 2017/P1/Q4(c)	J 2017/P2/Q2(a)	N 2017/P1/Q4(b)
N 2017/P2/Q3(a)	J 2018/P1/Q2(d)	J 2018/P1/Q4(e)	N 2018/P1/Q1(b,c)
N 2018/P1/Q4(c)	J 2019/P1/Q4(d)	N 2019/P1/Q3(a)	J 2020/P1/Q2(e)
N 2020/P1/Q1(b,c,e)	N 2020/P1/Q4(e)	N 2020/P2/Q2(b)	J 2021/P1/Q2(e)
J 2021/P2/Q3(b)			

2.4 *Internal and External Communication*

J 2012/P1/Q4(d)	J 2012/P2/Q3(a)	J 2013/P1/Q3(a,b)	N 2013/P1/Q5(c)
J 2014/P1/Q1(b,d)	J 2014/P2/Q3(b)	N 2014/P1/Q4(c)	N 2014/P2/Q3(b)
J 2015/P1/Q2(c)	N 2016/P1/Q3(c,d)	J 2018/P1/Q4(d)	J 2018/P2/Q1(b)
N 2019/P2/Q3(a)	N 2021/P1/Q1(d)		

3 Marketing

3.1 *Marketing Concepts*

N 2014/P1/Q3(a,b,c)	J 2015/P1/Q3(a)	J 2015/P2/Q2(a)	N 2015/P1/Q3(e)
N 2015/P2/Q1(b)	J 2016/P1/Q2(a,b,c,d)	J 2017/P1/Q3(b)	N 2017/P1/Q4(a)
J 2019/P1/Q2(a)	N 2019/P1/Q3(b)	J 2020/P1/Q3(e)	J 2020/P1/Q4(d)
N 2020/P1/Q2(e)	N 2020/P1/Q4(d)	J 2021/P1/Q1(e)	N 2021/P1/Q1(e)
N 2021/P1/Q3(e)			

3.2 *Market Research*

J 2012/P1/Q1(a)	N 2012/P1/Q1(d)	N 2013/P2/Q4(a)	J 2015/P1/Q3(b)
N 2015/P1/Q1(a)	N 2015/P2/Q3(a)	N 2016/P2/Q4(a)	J 2017/P1/Q1(a)
J 2018/P1/Q2(c)	N 2019/P1/Q2(e)	N 2019/P2/Q1(b)	N 2020/P1/Q3(d)

3.3 Marketing Mix

J 2012/P1/Q1(c)	J 2012/P1/Q3(e)	J 2012/P1/Q4(e)	J 2012/P2/Q4(a)
N 2012/P1/Q1(a,b,c,e)	N 2012/P2/Q3	J 2013/P1/Q2(b,c,d,e)	J 2013/P1/Q4(d)
J 2013/P2/Q2(b)	N 2013/P1/Q2	N 2013/P1/Q3(e)	J 2014/P1/Q2(d)
J 2014/P1/Q3(b, d)	J 2014/P1/Q4(d)	J 2014/P1/Q5(e)	J 2014/P2/Q2
J 2014/P2/Q4(b)	N 2014/P1/Q3(e)	N 2014/P2/Q3(a)	J 2015/P1/Q2(b)
J 2015/P1/Q3(c,d,e)	J 2015/P1/Q3(c,d,e)	J 2015/P2/Q2(b)	N 2015/P1/Q1(b,d,e)
J 2016/P1/Q2(e)	J 2016/P2/Q2(b)	N 2016/P1/Q2(b,c,d)	N 2016/P2/Q4(b)
J 2017/P2/Q4	N 2017/Q1(d,e)	N 2017/P2/Q2(b)	J 2018/P1/Q1(c)
J 2018/P1/Q3(d)	N 2018/P1/Q1(e)	N 2018/P1/Q2(c,e)	N 2018/P1/Q4(d)
N 2018/P2/Q2	J 2019/P1/Q1(d,e)	J 2019/P1/Q4(c)	J 2019/P2/Q1(a)
N 2019/P1/Q2(d)	N 2019/P1/Q3(c,d)	N 2019/P2/Q1(a)	J 2020/P1/Q3(d)
J 2020/P2/Q2(b)	N 2020/P1/Q2(b)	N 2020/P2/Q3(b)	J 2021/P1/Q1(a,b)
J 2021/P1/Q4(d)	J 2021/P2/Q2(b)	N 2021/P1/Q2(c)	N 2021/P2/Q3

3.4 Marketing Strategy

J 2012/P2/Q4(b)	N 2012/P2/Q1(b)	N 2016/P1/Q2(a)	J 2017/P1/Q2(e)

4 Operations Management

4.1 Production of Goods & Services

J 2012/P1/Q2(a,d,e)	J 2012/P2/Q5(a)	N 2012/P1/Q2(a)	N 2012/P1/Q4(d)
J 2013/P2/Q4(b)	N 2013/P1/Q1(a)	N 2013/P2/Q3(b)	J 2014/P1/Q2(c)
J 2014/P1/Q3(a)	J 2014/P1/Q5(c)	J 2014/P2/Q5(a)	N 2014/P1/Q3(d)
J 2015/P1/Q1(e)	J 2015/P2/Q3(a)	N 2015/P1/Q2(c,d)	N 2015/P1/Q3(a,b)
J 2016/P1/Q1(c,d)	N 2016/P1/Q3(a)	N 2016/P2/Q3(a)	J 2017/P1/Q1(e)
J 2017/P1/Q2(d)	N 2017/P1/Q2(d,e)	N 2017/P2/Q4(a)	J 2018/P1/Q4(c)
J 2018/P2/Q3(a)	N 2018/P1/Q3(d)	J 2019/P1/Q2(c,d)	J 2019/P2/Q2(b)
N 2019/P1/Q4(d)	J 2020/P2/Q3(a)	N 2020/P1/Q2(d)	J 2021/P1/Q2(b)
J 2021/P1/Q3(d)	J 2021/P2/Q4(a)	N 2021/P1/Q1(b)	N 2021/P2/Q2(a)

4.2 Costs, Scale of Production and Break-even Analysis

J 2012/P1/Q5(e)	N 2012/P1/Q2(c)	N 2012/P2/Q2(b)	J 2013/P1/Q1(b)
J 2013/P1/Q3(e)	N 2013/P1/Q1(b,c)	N 2013/P1/Q3(a,b,c)	N 2014/P1/Q5(c,d)
J 2015/P1/Q1(b,c)	J 2015/P2/Q3(b)	N 2016/P2/Q2(a)(i)	J 2017/P1/Q1(b)
J 2017/P2/Q3(b)	N 2017/P1/Q1(c)	J 2018/P1/Q4(b)	N 2018/P2/Q1(b)
J 2019/P1/Q1(b,c)	J 2019/P2/Q4(a)	N 2019/P2/Q3(b)	J 2020/P1/Q2(b)
J 2020/P1/Q4(c)	N 2020/P1/Q4(a)	J 2021/P1/Q3(a,b)	
N 2021/P1/Q2(a,b)	N 2021/P1/Q3(b)		

4.3 Achieving Quality Production

J 2012/P1/Q2(c)	J 2012/P2/Q2(a)	N 2012/P1/Q2(d)	J 2013/P1/Q2(a)
J 2014/P1/Q3(c)	N 2014/P2/Q1(b)	J 2015/P1/Q1(a)	N 2016/P1/Q3(b)
J 2017/P1/Q3(d)	N 2018/P1/Q3(c)	N 2018/P2/Q1(a)	J 2020/P1/Q1(c)
N 2020/P2/Q1(b)	J 2021/P1/Q1(c)	N 2021/P1/Q1(c)	

4.4 Location Decisions

J 2012/P1/Q5(d)	J 2013/P1/Q5(d)	N 2013/P1/Q1(e)	J 2014/P1/Q4(e)
N 2015/P2/Q4(b)	N 2016/P1/Q4(d)	J 2017/P1/Q1(c)	N 2017/P2/Q3(b)
J 2018/P1/Q1(d)	J 2018/P2/Q3(b)	N 2018/P1/Q1(d)	N 2020/P1/Q1(d)
J 2021/P2/Q1(b)			

5 Financial Information and Decisions

5.1 Business Finance: Needs and Sources

J 2012/P1/Q3(d)	J 2013/P2/Q3(a)	N 2013/P2/Q3(a)	J 2014/P1/Q5(a)
J 2015/P1/Q4(b)	J 2016/P2/Q4(b)	N 2016/P1/Q1(e)	N 2017/P2/Q1(b)
J 2018/P1/Q1(e)	N 2018/P1/Q2(b)	N 2018/P2/Q4(a)	J 2019/P1/Q4(b)
N 2019/P1/Q3(e)	J 2020/P1/Q3(c)	N 2020/P1/Q3(a)	N 2020/P2/Q1(a)
J 2021/P1/Q2(c)	N 2021/P1/Q4(d)	N 2021/P2/Q2(b)	

5.2 Cash-flow Forecasting and Working Capital

J 2014/P1/Q5(b,d)	J 2014/P2/Q1(b)	N 2014/P1/Q2	N 2016/P1/Q3(e)
J 2017/P1/Q2(a)	J 2018/P1/Q2(a,b,e)	J 2018/P2/Q4(a)	N 2018/P1/Q4(b,e)
N 2019/P2/Q4(a)	N 2020/P1/Q3(b,c)	J 2021/P1/Q2(a,d)	J 2021/P2/Q3(a)

5.3 Income Statements

J 2012/P2/Q1(b)	N 2012/P1/Q3(a,c,d)	J 2013/P1/Q4(a,c)	N 2013/P1/Q4(c)
J 2014/P1/Q2(a)	J 2014/P1/Q4(c)	N 2016/P2/Q2(a)(ii)	J 2017/P1/Q1(d)
N 2017/P1/Q1(b)	N 2019/P1/Q2(b,c)	J 2020/P1/Q2(c)	J 2020/P1/Q3(c)
J 2020/P1/Q4(a)			

5.4 Statement of Financial Position

N 2015/P1/Q2(b)	J 2016/P1/Q3(a,b,c)	N 2017/P1/Q3(b)	N 2019/P1/Q4(b)

5.5 Analysis of Accounts

J 2012/P1/Q3(b,c)	J 2012/P2/Q5(b)	N 2012/P1/Q3(e)	J 2013/P1/Q4(b,e)
J 2013/P2/Q3(b)	N 2013/P2/Q2(b)	N 2014/P2/Q4(b)	N 2015/P1/Q1(c)
N 2015/P1/Q2(e)	N 2015/P2/Q3(b)	J 2016/P2/Q3(b)	N 2016/P2/Q2(b)
J 2017/P1/Q2(b,c)	J 2017/P2/Q1(a)	N 2017/P1/Q3(c)	N 2017/P2/Q4(b)
N 2018/P2/Q3(b)	J 2019/P1/Q3(d)	N 2019/P1/Q4(c)	J 2020/P2/Q1b)
N 2020/P1/Q4(b)	N 2020/P2/Q4(a)	N 2021/P1/Q3(c)	

6 External influences on business activity

6.1 Economic Issues

N 2012/P1/Q5(b)	N 2012/P2/Q5(a)	J 2013/P1/Q1(a)	N 2013/P2/Q5(b)
N 2014/P2/Q5(b)	J 2015/P2/Q4(a)	N 2015/P1/Q4(a,b,c)	N 2015/P2/Q4(a)
J 2016/P2/Q4(a)	N 2016/P2/Q1(b)	J 2017/P1/Q3(a,c)	J 2017/P2/Q1(b)
N 2017/P1/Q4(c)	J 2018/P1/Q3(b,c)	J 2018/P2/Q4(b)	N 2018/P1/Q2(d)
J 2019/P2/Q4(b)	N 2019/P1/Q1(b)	N 2019/P2/Q4(b)	J 2020/P1/Q1(b,e)
J 2020/P2/Q4(b)	N 2020/P1/Q1(a)	N 2020/P1/Q4(c)	J 2021/P1/Q4(b)
N 2021/P1/Q3(d)			

6.2 Environmental and Ethical Issues

J 2012/P2/Q2(b)	N 2012/P1/Q5(d,e)	N 2012/P2/Q5(b)	J 2013/P1/Q5(b,e)
J 2013/P2/Q5(a)	N 2013/P2/Q1(b)	J 2014/P1/Q4(b)	J 2014/P2/Q3(a)
N 2014/P1/Q5(e)	N 2015/P1/Q4(e)	J 2016/P1/Q4(e)	J 2016/P2/Q1(b)
J 2016/P2/Q2(a)	N 2016/P1/Q1(b)	N 2017/P1/Q2(b,c)	J 2018/P1/Q3(e)
J 2018/P2/Q2(a)	J 2018/P2/Q4(b)	N 2018/P2/Q4(b)	J 2019/P1/Q2(e)
J 2019/P1/Q3(a,b)	J 2019/P2/Q4(b)	N 2019/P1/Q1(c,e)	N 2019/P1/Q4(e)
J 2020/P1/Q1(d)	J 2020/P1/Q4(e)	J 2020/P2/Q4(a)	N 2020/P1/Q2(a)
N 2020/P2/Q4(b)	J 2021/P1/Q4(c)	J 2021/P2/Q4(b)	N 2021/P1/Q2(d)
N 2021/P1/Q3(a)			

6.3 Business and the International Economy

J 2012/P1/Q1(d,e)	N 2012/P1/Q4(b)	J 2013/P1/Q3(d)	J 2013/P2/Q1(b)
N 2013/P1/Q1(d)	N 2014/P1/Q4(d)	J 2015/P2/Q4(b)	J 2016/P1/Q4(a,c,d)
N 2016/P1/Q1(c)	N 2016/P1/Q2(e)	N 2018/P1/Q3(e)	J 2019/P1/Q3(e)
N 2019/P1/Q4(a)	J 2020/P1/Q2(d)	J 2021/P1/Q4(e)	J 2021/P2/Q2(a)

NOVEMBER 2022 PAPER 1

Short Answer and Data Response

Question 1

EQR owns 150 cafes. It sells a range of drinks including coffee. Being ethical is important to EQR. The Managing Director has been analysing EQR’s statement of financial position. The business has the objective to increase its 6% market share. The Managing Director plans to grow the business by selling franchises for $85 000. She is also considering ways to increase added value.

(a) Define ‘market share’. [2]

(b) Define ‘statement of financial position’. [2]

(c) Outline **two** ways EQR could increase added value. [4]

(d) Explain **two** advantages to EQR of selling franchises as a way to grow its business.

Advantage 1
Explanation

Advantage 2
Explanation [6]

(e) Do you think a business being ethical will always lead to lower profits? Justify your answer. [6]

Solution

(a) The percentage of one firm's sales compared to the sales in the entire industry. It is calculated by the formula: $\dfrac{\text{Firm's sales}}{\text{Industry sales}} \times 100$

(b) A financial statement that shows the net worth of a business by recording the assets and liabilities of a business on a particular date. It also shows the equity (amount invested by share holders / owners).

(c) **Way 1:** EQR can buy the ingredients for making coffee in bulk which will help them avail discounts reducing the cost of goods which will increase the difference between cost of raw material and selling price.

Way 2: As EQR is an ethical business it can increase its prices as it has an ethical image and consumers are willing to pay higher for ethical products which will increase the difference between selling price and cost of raw materials.

(d) **Advantage 1:** EQR can expand without having to make any investment.

Explanation: EQR will not have to take any loans to expand as all the investment will be done by the franchisee and the initial costs of buying the land as well as the building will come from franchisee's pocket.

COMMENT on **ANSWER**

❝(d) A franchise is a contract in which the business fanchisor allows the franchisee to use its brand name and trade secrets in return for a percentage of the franchisee's sales (royalty). ❞

Advantage 2: EQR will be able to expand at a very fast rate.

Explanation: EQR will be able to expand at a fast rate as its franchise could be sold to different locations. The increase in the number of outlets rapidly will boost EQR's brand image resulting in an increase in market share greater than the current 6%.

(e) Ethical consideration refers to the moral conduct that a business has which determines how its workers consider the interests of the community. Being ethical in the short run will increase costs as the business will be ethical towards the workforce and pay good salaries and provide good working conditions. Being ethical will mean the business will try to be environmentally friendly which will again increase the costs as business will use clean energy such as solar which is costly. However, being ethical will give the business a very good brand image and it will be able to lower its advertising costs. Also workers will be motivated in an ethical business and will be more efficient reducing wastages which will reduce the average costs of the business. Therefore the benefits of ethics will come in the long run and the rise in costs in the short run will be overcome in the long run through a better brand image and motivated workforce and ethical businesses will also be able to increase prices of their goods and services resulting in more profits in the future.

Question 2

Kemala makes high-quality beauty products. Demand for her best-selling hand cream is price inelastic. She advertises her products in specialist beauty magazines. Kemala is analysing her income statement. An extract is shown in Table 2.1. She said: 'When I started my business, I did not understand why cash is important'.

Table 2.1

Extract from Kemala's income statement 2021 ($000)	
Revenue	480
Gross profit	192
Profit for the year	72

(a) Define 'revenue'. [2]

(b) Calculate Kemala's profit margin. Show your working. [2]

(c) Outline **two** reasons why cash is important for Kemala's business. [4]

(d) Explain **two** possible reasons why demand for Kemala's best-selling product is price inelastic.

Reason 1
Explanation

Reason 2
Explanation [6]

(e) Do you think advertising in specialist magazines is the best way for a business to promote high-quality products? Justify your answer. [6]

Solution

(a) Revenue is the money earned by a business when it sells its goods and services to customers. It is calculated [Revenue = selling price × quantity sold]. Revenue can be used to calculate the market share of the business.

(b) $$\text{Profit margin} = \frac{\text{Profit}}{\text{Revenue}} \times 100$$

$$= \frac{\$72\ 000}{\$480\ 000} \times 100 = 15\%$$

(c) **Reason 1:** Cash is very important for Kemala as she has to advertise in specialist beauty magazines which can only be done by paying cash to the magazines otherwise they will not print her advertisement lowering customer awareness.

Reason 2: As Kemala makes high quality hand cream so she will have to pay the supplier of raw materials on time otherwise the supplier will not deliver the raw materials which would spoil the quality of her creams.

(d) **Reason 1:** Kemala's hand cream is having unique features.

Explanation: No other competitor is able to make a close substitute of Kemala's hand cream so customers don't have an alternative and are willing to buy it even if Kemala increases the prices.

Reason 2: Kemala targets the high income market segments.

Explanation: The high income consumers do not find Kemala's best selling product expensive and even if the price is raised they can still easily buy the same quantity as before.

(e) Advertising in specialist magazines will help target the exact market segment of high income consumers and they will become aware of Kemala's creams increasing the market share. Specialist magazines once bought would be kept for a long time so more people would see Kemala's advertisement. Such magazines are kept for reading at beauty salons creating more awareness. The advertisement in magazines is colourful and attractive and this would increase the brand image of Kemala's creams. However these magazines are not read by a lot of people and it would be costly for a small business to spend so much on advertising. For a small business like Kemala's it would be more advisable to advertise in social media as it can reach a very large number of customers very quickly and it is free of cost. Most people who use beauty products are social media users so it would be more effective if Kemala would advertise on the social media platforms rather than specialist magazines.

COMMENT on **ANSWER**

❝ **(c)** In the short run having adequate cash reserves is most important aspect. While in the long run it is more important to earn profit.

(d) Price elasticity is the measure of the responsiveness of a change in demand to a corresponding change in price.

Inelastic demand means for a large rise in price there is a much smaller percentage fall in demand. ❞

NOVEMBER 2022 PAPER 2

CASE Study

Cherished Chocolates (CC)

CC is a public limited company. It employs 4000 workers in country X and many are members of a trade union. CC has manufactured chocolate bars in country X for 50 years. It imports most of its raw materials, such as cocoa beans. Over the last 10 years CC has expanded and now sells in other countries. Many of these countries have no trade restrictions. The Directors of CC know that globalisation has opportunities and threats for CC.

CC produces a number of brands of chocolate bars, such as Tiabar, in country X. Its most popular chocolate bar, Choco, has the highest market share. The total market for chocolate bars is no longer growing in country X. CC plans to reduce the number of brands it sells in country X. It has to decide which of the two brands shown in Appendix 1 to stop selling.

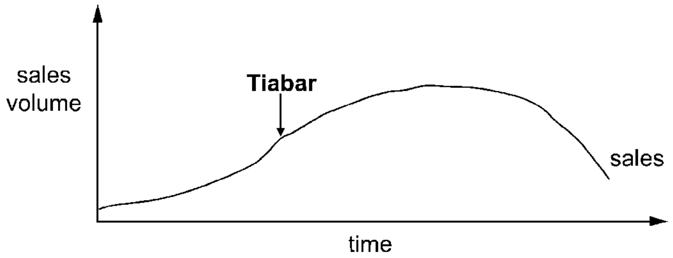
NM operates in country Z and sells its own brands of chocolate bars, including Nuttybar. NM employs 500 workers. In country Z chocolate bars are distributed through small retail outlets. The wage rates in country Z are lower than in country X. However, incomes in country Z are starting to rise.

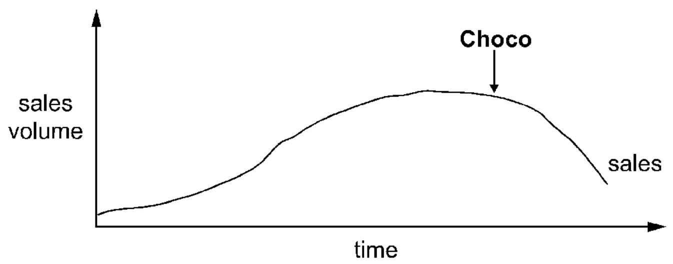
The Directors of CC are planning to take over NM to expand into this market rather than setting up a factory. The takeover will cost $35 million, some of which will be financed by a bank loan. The shareholders of NM are being offered CC shares in exchange for NM shares.

The Directors of CC know there might be diseconomies of scale after the takeover. They also have to decide who will be the Operations Manager for NM's factory in country Z. They could keep NM's existing Operations Manager or move CC's Operations Manager from country X. Information about the two managers is shown in Appendix 2.

Appendix 1

The product life cycles of two of CC's brands of chocolate bars in country X





Option 1 – stop producing Tiabar

A brand aimed at young children which is a new target market for CC. The market research at the development stage showed positive results from test marketing and sales have been growing steadily. There are many multinational chocolate bar companies targeting this age group.

Option 2 – stop producing Choco

The market leader in country X. It is a well established brand targeting adults. Sales are high but have not been increasing for several years. No new competitors have entered this market in the last two years.

Appendix 2

Information about the two Operations Managers for NM's factory in country Z

	Samuel **CC's Operations Manager**	**Ritesh** **NM's Operations Manager**
Qualifications /Skills	8 IGCSEs On-the-job training in the production of chocolate bars	5 IGCSEs and 2 A levels Degree in Business Management
Experience	10 years as the Operations Manager for CC Worked for CC for 20 years and knows the production and warehouse storage requirements for all of its brands Has links with all CC's suppliers of high-quality ingredients such as cocoa beans and milk	2 years as the Operations Manager for NM Purchased all the ingredients, including nuts, for NM's products Previously worked for 5 years for a chocolate bar manufacturing business in country Z Worked for 5 years for a small retailer in country Z

Appendix 3

Selected information from the financial statements for CC and NM for 2021

	CC	**NM**
Long-term bank loan	$10m	$5m
Total shareholders' equity	$200m	$30m
Current ratio	2	1
Acid test ratio	1.2	0.33
Profit for the year	$42m	$3.5m
Profit margin	25%	15%
Return on Capital Employed (ROCE)	20%	10%

Question 1

(a) Explain **two** reasons why the owners of CC might want to expand the business.

Reason 1
Explanation

Reason 2
Explanation [8]

(b) Consider the opportunities and threats of globalisation for CC. Which is likely to have the greatest effect on CC? Justify your answer.

- Opportunities
- Threats
- Conclusion [12]

Solution

(a) Reason 1: To be able to give higher dividends to the shareholders.

Explanation: As CC is a public limited company and would want to expand to be able to increase sales and profits so it can give higher dividends to its shareholders so that they will not be willing to sell their shares and in this way there will be no risk of takeover of CC by any competitor.

Reason 2: To avail purchasing economies of scale.

Explanation: CC would want to expand the business so that they can produce chocolates in large quantity leading to buying the raw material in bulk which will help CC get discounts from the supplier lowering the average cost of raw material which will help increase the profit margins of CC.

(b) Opportunities: CC will now be able to sell their chocolates globally throughout the world getting higher market share as well as availing economies of scale leading to higher profits. Globalisation will allow CC to set up their factory in country X and they could get benefit of cheaper labor and produce chocolates at lower costs increasing their profit margins. CC will also be able to import the cocoa beans easily without import duties and less documentation. Thus globalisation will give the opportunity to CC to produce and sell greater quantity of chocolates and lower costs.

Threats: Due to globalisation there will be greater number of multinational companies entering the country and CC will find it difficult to compete and will have to lower its prices and increase the advertising cost which would lead to lower profits. CC's market share would go down in their country. The workers of CC will now have more job opportunities and will apply for jobs in multinational companies and this will increase the labour turnover of CC and they will have to continuously recruit and train the workers which will increase the costs and also negatively affect quality.

COMMENT on **ANSWER**

❝ **(a)** Growth and expansion is a corporate objective. Other corporate objectives include:

- Profit maximization
- Survival
- Increasing market share
- Gaining customer loyalty
- Corporate social responsibility ❞

Conclusion: The opportunities of globalisation will be greater for CC as they will be able to produce on a large scale which will lower costs and with lower costs CC will be able to fight off the threats of globalisation and with higher profits from expansion CC will be able to advertise more and will be able to fight the large multinational companies.

Question 2

(a) Explain **four** roles of packaging for CC's products. [8]

(b) Using Appendix 1 and other information, consider the advantages and disadvantages of the **two** CC brands. Which brand should CC stop producing? Justify your answer.

- Option 1
- Option 2
- Recommendation [12]

Solution

(a) Role 1: CC can use bright packaging for their chocolates to attract children, and in this way they can charge added value which can beat NM (Nuttybar).

Role 2: CC can use a special packaging to keep the chocolates safe from melting and prevent it from breaking, this way chocolates quality will be maintained.

Role 3: CC's packaging will provide all the information of the ingredients in the chocolates and also the price and expiry dates and in this way there will be no legal issues and CC will follow the consumer laws.

Role 4: The packaging of CC chocolates will be in distinct and different colours and this will help distinguish CC chocolates from the competitors chocolates in the retail outlets.

(b) Option 1: Tiabar is in the growth stage of the product life cycle and it has a large potential for high sales in the future when it reaches its maturity stage. Further its test marketing was positive and it is the most popular brand of CC which is helping give CC high sales. Tiabar still has a long life cycle and CC will not have to develop another brand quickly saving new product development costs. However Tiabar only targets children which is a small market segment and children grow quickly and would stop eating it. Further a lot of large competitors are targeting children so advertising cost will be very high for Tiabar.

Option 2: There is no new competitor in country X targeting adults so Choco does not have a lot of competition and CC will not have to incur high advertising costs for it. Further its current sales are high which means CC will be availing economies of scale in production of Choco which means low average cost and high profit margins. However Choco is at the end of its maturity stage and will be entering saturation which means that CC will have to spend a lot of money

COMMENT on **ANSWER**

❝**(b)** The product life cycle shows the different stages of sales a product goes through over time. The stages are introduction, gowth, maturity, saturation and decline.❞

on extension strategies such as new packaging and there will be a risk that the extension strategy may not work which will then mean decline stage and rapid fall in sales.

Recommendation: CC should stop producing Choco as CC should think about the long term future and not the short run. Although Choco sales are high at the moment but it does not have a long term future as it is in the maturity stage and next is saturation. While Tiabar is in growth stage and has greater potential in the future and if Tiabar is successful then it will give a lot of sales for CC in the future.

Question 3

(a) Explain **two** diseconomies of scale CC might experience as it expands.

Diseconomy of scale 1
Explanation

Diseconomy of scale 2
Explanation [8]

(b) Consider the information about the **two** managers outlined in Appendix 2. Who should be chosen as the Operations Manager for the NM factory? Justify your answer.

- Samuel
- Ritesh
- Recommendation [12]

Solution

(a) Diseconomy of scale 1: Poor communication

Explanation: As CC will grow more larger, many more employees will be hired which disrupts smooth communication. As there are 4000 workers, they will not understand their objectives properly leading to making defective production.

Diseconomy of scale 2: Reduced motivation.

Explanation: As the business increase, employees might feel isolated and this can lead to low motivation inside the business. Which can lead to more labor turnover and increase in employees absences and this will increase the training and recruitment costs.

(b) Samuel: Samuel has training in production of chocolate bars and will not make any errors and will also be able to train CC workers which will help increase efficiency levels and reduce wastage. He has 10 years experience so he knows all the procedures properly and will make the right decisions as he is completely familiar with CC machines and will not have to learn anything new. Therefore his decision making will be quick. His links with all of CC's suppliers means he will easily be able to negotiate good discounts and could get cocoa beans on credit as well improving CC's cash flow and profits.

COMMENT on ANSWER

❝ **(a)** Diseconomies of scale are the drawbacks of rising average costs that a business faces when it expands beyond a certain point. ❞

Ritesh: Ritesh has a business management degree and will have very good knowledge about management and administration and would be able to do planning and coordination of his strategies properly achieving CC objectives. He lives in country Z and would have full knowledge about the language, culture and demand which will help CC make the right type of chocolates increasing sales. He already worked for NM so will have good relations with the workers and will be able to motivate them to work hard increasing the efficiency levels. He can inspect the ingredients as he has experience in purchasing nuts so will make sure all raw material is of good quality.

Recommendation: It is recommended to hire Ritesh as the operations manager as he already has worked at NM factory and will not need any induction training. Further as he already lives in country Z he will not require accommodation and traveling costs which Samuel would require as he would have to shift from country X to country Z and will not be very comfortable in a new country. Further Ritesh has all the knowledge about NM brands and can market them easily.