

Business Growth

1.

Ryan Davies has been a keen reader since childhood. After being made redundant from a travel agent business, where he had worked for a number of years, he decided to set up a shop selling new and second hand books.

After a while, Ryan found that his sales revenue was not as great as he expected. He is considering whether or not to diversify by selling tea, coffee and cakes to customers in one part of his shop.

(e) Advise Ryan as to whether or not he should serve refreshments in part of the shop. [8]

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2.

Gavin and Anita Johnson always enjoyed woodcraft, particularly making wooden furniture. They have decided to use the skills gained from their hobby to set up a small business producing wooden mirrors, picture frames, small tables and stools.

GAVIN AND ANITA'S CASH FLOW FORECAST JUNE TO DECEMBER 2017

	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
Receipts	£	£	£	£	£	£	£
Turnover	3000	3200	3500	3100	2800	2600	2300
Payments							
Materials	500	540	550	?	535	550	450
Salary/Wages	1200	1200	1200	1200	1200	1200	1200
Rent	400	400	400	400	400	400	400
Gas			180			180	
Electricity		160			160		
Insurance	100	100	100	100	100	100	100
Other Costs	500	200	50	150	250	300	275
Total Payments	2700	2600	2480	2395	2645	2730	2425
Net Cash flow	300	600	1020	705	155	-130	-125
Opening Bank Balance	1000	1300	1900	2920	3625	3780	3650
Closing Bank Balance	1300	1900	2920	3625	3780	3650	?

3. The Virgin Group is a complicated business organisation which means that it is divided into a number of individual private limited companies. The Virgin Group was set up by Sir Richard Branson in 1970 and he is a major shareholder in all the companies.

The Virgin Group has grown to include businesses in areas ranging from mobile telephones to transportation, travel, financial services, media, music and fitness.

Some of the growth has involved buying existing businesses.

(b) Which term below is used to describe growth by buying existing businesses? [1]

Tick one box only.

ACQUISITION	1
INTERNAL GROWTH	2

4. The Virgin Group is a complicated business organisation which means that it is divided into a number of individual private limited companies. The Virgin Group was set up by Sir Richard Branson in 1970 and he is a major shareholder in all the companies.

The Virgin Group is so large that it gains economies of scale.

(c) (i) What is meant by the term economy of scale? [2]

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(ii) Explain one economy of scale from which the Virgin Group might benefit. [3]

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6.

 <p>Unilever</p>	<p>Unilever plc is one of the world's most successful companies with factories and offices located in many countries across the world. It provides a variety of branded products from home and personal care goods, such as Persil and Surf washing powder, to foods such as Ben & Jerry's ice cream.</p>	 
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Adapted from Unilever website 2015

- (e) Unilever plc is a multinational business operating in many countries all over the world. Discuss the advantages and disadvantages of being a multinational business. [10 QWC]

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7.

Dyson Ltd is a British technology company founded in 1993 by James Dyson. The business designs and manufactures vacuum cleaners, hand dryers and other electrical products.

Dyson Ltd sells products in over 50 countries.

(e) Consider the advantages and disadvantages to businesses which want to sell their products abroad. [8]

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8.

PrettyinPink Ltd has been established for 5 years. The main shareholder and Managing Director, Mrs Emma Thomas, started the business from home, designing and making fashionable clothing for close friends and family.

Since then, she has opened shops in several town centres, employing more than 20 people in total.

Emma is interested in expanding the business even further. Due to the success of online clothes retailers such as ASOS, she is seriously considering setting up a website and selling her clothing range on the internet.

- (d) PrettyinPink Ltd is aware of the legal responsibilities it has to its workers. Suggest and explain **one** legal responsibility PrettyinPink Ltd has to its workers. [2]

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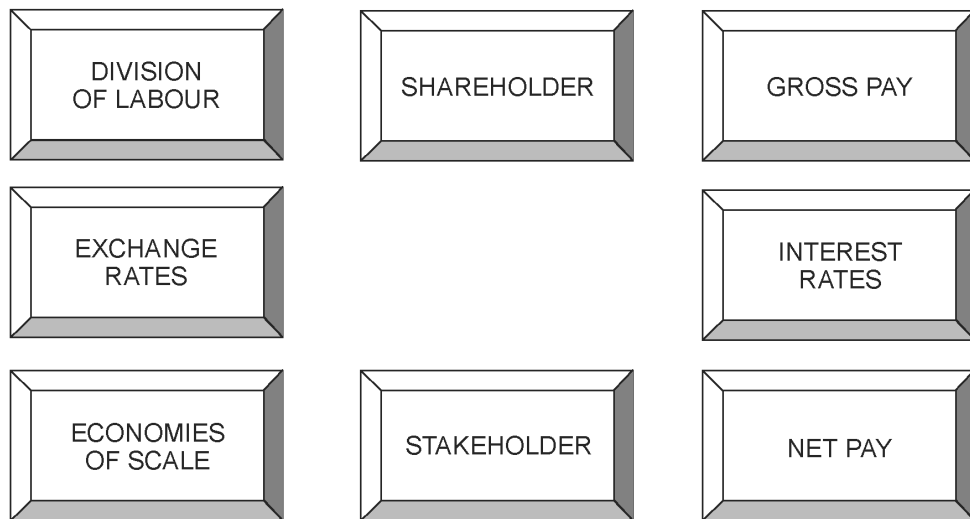
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9.

Below are a number of terms and concepts used in business.



Which of the above best describes **each** of the following:

- (iii) an increase in production (output) results in a reduction in unit costs;

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Marking Scheme

1.

	<p>(e) Advise Ryan as to whether or not he should serve refreshments in part of the shop.</p> <p>Level 1 Suggests/ lists reasons why Ryan should or should not diversify.</p> <p>Level 2 Suggestions justified but one sided view of whether or not Ryan should diversify.</p> <p>Level 3 Suggestions justified with consideration of the pros and cons of diversification. The best answers will draw a justified conclusion. 2 advantages and 1 disadvantage or 2 disadvantage and 1 advantage.</p> <p>Advantages might include:</p> <p>spreading risk – drop in sales of one made up for with sales in other more customers – attracted by different products – greater revenue greater profit – mark up on refreshments may be greater than on books – one helps to fund other more able to compete spin off sales customers for one may be tempted to buy other perhaps bigger business – better reputation – customer loyalty etc.</p> <p>Disadvantages might include:</p> <p>more capital needed – e.g. cost of setting up – interest – increased liabilities employing more workers – training sourcing materials – quality bad reputation one side – will affect the other resistance from customers – might prefer separate businesses less room for books – smaller choice for customers practical considerations – e.g. damage to stock etc.</p> <p>Conclusion</p> <p>Reference to business reason, such a sales / profit / cost / revenue / quality/ etc.</p>	<p>8</p> <p>1-2</p> <p>3-5</p> <p>6-8</p>	<p>AO1 2 AO2 3 AO3 3</p>
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2.

10.	(f)	Discuss the reasons why some businesses choose to grow and other businesses choose to remain small. Level 1 Candidate suggests reason(s) why some businesses choose to grow and / or why some choose to remain small. May include brief or limited explanation. Level 2 Candidate suggests reason(s) why some businesses choose to grow and/ or why others choose to remain small as well as providing some explanation. Level 3 Candidate fully explains the reasons why some businesses choose to grow and why others choose to remain small. [MAX 4 for unbalanced argument]	8 1-2 3-5 6-8	AO1 2 AO2 3 AO3 3
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3.

10.	(b)	Which term below is used to describe growth by buying existing businesses? ACQUISITION	1	AO1 1
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4.

	(c)	(i) What is meant by the term economy of scale? because business is so big/ grows [1] average / unit cost is lower [1]	2	AO1 2
		(ii) Explain one economy of scale from which the Virgin Group might benefit. Suggests economy of scale/name of economy of scale [1] explains / describes / expands [3x1] i.e. may gain 3 without naming economy of scale purchasing – involves bulk buying – the more goods bought – the lower the cost of each good – e.g. marketing – can afford more expensive advertising campaigns e.g. on TV – seen by more people – sales increase – cost of advertising can be spread over more goods so cost of each good sold lower technical – can afford more expensive machinery – more goods produced – costs spread over all goods produced – so cost of each good produced lower financial – so big – need to borrow large sums of money – can negotiate lower rates of interest – can spread this cost over all goods sold / produced managerial – need for large administration – hierarchy – specialists – departments – can spread cost over all goods sold / produced allow risk bearing / diversifying	3	AO2 3

5.

<p>10. (e)</p>	<p>Discuss whether or not Judith should expand as a franchisor.</p> <p>Level 1 Suggests advantages and/or disadvantages of becoming franchisor.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p> <p>Level 2 Answers will be one-sided perhaps using more business terms and explaining why Judith should become a franchisor.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p> <p>Level 3 Answers will be balanced with at least 2 advantages and 2 disadvantages explained.</p> <p>The best answers will make a recommendation. Information is very well organised and the form and style of communication is highly appropriate. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p> <p>Arguments for might include:</p> <p>Enables growth – with less risk to franchisor – becomes more widely known – quicker than internal growth</p> <p>Franchisor receives money - as franchisees pay royalties - start up fees</p> <p>Franchisee must buy stock from franchisor - increased revenue/profit for franchisor</p> <p>Franchisee may be more enthusiastic than company manager - benefits sales - profits - reputation - of franchisor</p> <p>Franchisee organises outlet - finds location/site - planning permission - pays rent - pays for fittings/decoration - so costs lower</p> <p>Franchisee organises workforce - recruits - pays wages - complies with employment law etc.</p> <p>Arguments against might include:-</p> <p>Franchisor pays some costs - training - advertising - design</p> <p>Less control over franchised outlet - as run by franchisee</p> <p>Franchisor may suffer - badly run by franchisees - bad publicity for one affects all</p> <p>etc.</p>	<p>10</p> <p>1-3</p> <p>4-6</p> <p>7-10</p>	<p>AO1 3 AO2 3 AO3 4</p>
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6.

(e)	<p>Unilever plc is a multinational business operating in many countries all over the world. Discuss the advantages and disadvantages of being a multinational business.</p> <p>Level 1 Defines multinational and / or advantages and / or disadvantages stated with no explanation.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p> <p>Level 2 Advantages and / or disadvantages are discussed and shows how the business will / will not benefit.</p> <p>Only one advantage or disadvantage = MAX 4 Only one advantage and disadvantage = MAX 6</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p> <p>Level 3 Answer will be well balanced with at least 2 advantages and 2 disadvantages discussed.</p> <p>Information is very well organised and the form and style of communication is highly appropriate. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p> <p>Advantages might include:-</p> <p>Well known around world - more customers in a wider market – greater profits – money to invest – encourages shareholders/investors Easier to compete on foreign markets - when based locally Economies of scale - one example Lower production costs - one example - so lower costs - greater profit Take advantage of exchange rate movements Tax advantages - grants - less capital from business Removal of Trade barriers -example etc.</p> <p>Disadvantages might include:-</p> <p>Size of business - difficult to manage - communication problems – Language barriers - increased costs Laws in other countries – any examples from legal systems - consumer rights / employee rights/ planning / environmental issues/ tax - Political systems - e.g. unrest Exchange rate movements may go against - profit / higher costs lower morale of home workers -jobs may be “exported” abroad — example of effects of demotivation Competition from domestic firms Set-up costs – premises/infrastructure/relevant examples Negative public image – seen as unethical. etc.</p>	<p>10</p> <p>1-3</p> <p>4-6</p> <p>7-10</p>	<p>AO1 3 AO2 3 AO3 4</p>
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7.

<p>8. (e)</p>	<p>Consider the advantages and disadvantages to businesses which want to sell their products abroad.</p> <p>Level 1 Advantages and/or disadvantages stated with no explanation</p> <p>Level 2 Advantages or disadvantages explained</p> <p>Level 3 At least 1/2 advantages and 2/1 disadvantages explained</p> <p>Points might include:</p> <p><u>Advantages</u> Bigger market - more potential customers in worldwide market - leading to higher sales - and greater profits</p> <p>Economies of scale – purchasing/bulk buying – marketing</p> <p>Wider range of customers - from various market segments - so greater spreading of risks - following downturn in one segment</p> <p>Exchange rate fluctuations - may benefit with rise in value of GBP etc.</p> <p><u>Disadvantages</u> Higher transport costs – products may be sent over greater distance/longer time</p> <p>Other transport problems - such as availability of mode/weather - strikes at ports</p> <p>Language problems - in trading - for handbooks - translation costs</p> <p>Currency conversion - costs - and exchange rate fluctuations</p> <p>Costs of different laws/customs - side of road - environmental laws</p> <p>Lack of knowledge of foreign markets - demands/tastes Problems of getting paid - more difficult to resolve over distance</p> <p>Trade barriers - embargoes/quotas</p> <p>Political factors - wars/conflict</p> <p>etc.</p>	<p>8</p> <p>1-2</p> <p>3-5</p> <p>6-8</p>	<p>AO1 2 AO2 3 AO3 3</p>
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8.

(d)	<p>PrettyinPink Ltd is aware of the legal responsibilities it has to its workers. Suggest and explain <u>one</u> legal responsibility PrettyinPink Ltd have to their workers.</p>	2	AO2 2
	<p>Suggestion [1] Explanation/development [1]</p> <p>Must ensure work environment is safe - otherwise workers may get hurt /they may sue for damages Health and Safety laws - make it an offence / to allow workers to work in dangerous conditions Liability laws - example Contract of employment - conditions of work / job description - time based - example Unfair dismissal - rules which must be followed before anyone can be dismissed Equality laws - on gender / age / race / disability / covering recruitment / pay / promotion / treatment of workers Minimum Wage – based on age – example Etc. for any appropriate employer/employee legislation</p>		

9.

Question No.	Question & Answer	Mark Allocation	Assessment Objective
5.	<p>Below are a number of terms and concepts used in business.</p> <p>Which of the above best describes each of the following:</p>		AO1 4
	<p>(iii) an increase in production (output) results in a reduction in unit costs;</p> <p>Economies of Scale</p>		