

BUSINESS STUDIES (BST315116)

SECTION A

General comments

Many students wrote lengthy introductions that simply repeated the question, with some students interweaving unnecessary statistics that did little to support their response.

Questions which could be answered in two parts were problematic for some students, with many focused too much on one part, exceeding the required amount of information, followed by a weaker or undetailed response for the second part of the question. If a question has two parts, student must address the whole question. Marking schemes for such questions give equal weight to each part of the question, limiting student's marks if they choose to answer only part of the question.

Criteria 5 specific feedback

1. Better responses clearly explained complex ideas using rich business terminology, in contrast to poorer responses, which used informal terms and where detailed knowledge of the theory was unclear.
2. Better responses incorporated more detail, generally 2/3 of a page to a full A4 page of written content – incorporating at least 10 facts on the topic (questions were out of 10 marks, so students can expect to incorporate 10 facts). Alternatively, 5 key points, explained well, provided sufficient detail.
3. Better responses did not rewrite the question; rather they started to respond to the question immediately.
4. Better responses used bullet points by explaining them fully, as opposed to weaker responses that simply used bullet points, without clearly explaining their relevance. Students should practice writing bullet points that include a sufficient level of detail.
5. Headings and paragraphs were useful particularly when questions required Two Concepts. e.g.

Concept 1

Start with an explanation of the first concept (this is the What), explain how the concept links to the question (This is the How). Provide an example and link the example to the question (This is the Why/Impact).

Concept 2

Start with an explanation of the second concept (this is the What), explain how the concept links to the question (This is the How). Provide an example and link the example to the question (This is the Why/Impact).

Part I – The Business Environment

Question 1

Students generally did well on this question, although many answers discussed businesses in general and were not specific enough to small businesses. This question had various approaches, with most students deciding to structure their answer by discussing social contributions followed by economic contributions. Many others discussed two roles (functions) of business (e.g. employment and the provision of goods and services) and described the social and economic impacts of each role. The latter approach / structure was a better reflection of the question's requirements.

There was a significant amount of repetition in many answers, with students using the same examples or roles for both social and economic contributions without elaborating on how each role contributes to society or the economy.

Students generally wrote stronger responses for the economic contributions, with better responses discussing factors such as the importance of small business for employment, the importance of employment and training in regional/rural areas, increased competition, niche product markets originating from unique local inputs and/or sole-trader skills, increased consumer choice, increased tax revenue for the government and decreased welfare provisions. Students did well to discuss how these factors stimulate the economy overall and help small communities thrive.

Regarding the social contributions, many student responses were lacking in detail and only discussed local sponsorship. Stronger responses outlined ways in which businesses could have a positive impact within their local community and mentioned supporting local sporting teams and/or community groups, engaging in ethical and sustainable business practices, and encouraging relationship building within the community. Students also discussed innovation, increased consumer choice, provision of essential goods and services (especially to rural or remote areas), the connection between employment and quality of life and/or sense of fulfilment, and the ability for business owners to pursue their personal ideas and interests.

Question 2

More students attempted this question than Question 1. This question was also widely interpreted, with many students discussing two ways that businesses can be classified, i.e. by their size or legal structure, whereas other students discussed two types of business classifications, such as sole trader and partnership or a large and a small business.

Most students who attempted this question wrote about the size, legal structure or industry sector. Fewer responses detailed the geographical spread and public/private/community sectors. Some students who wrote about the legal structure discussed only incorporated and unincorporated business structures and failed to discuss types of ownership.

Those who wrote about size did well to summarise the number of employees typically employed by these businesses, with some students using diagrams to support their response. However, few students discussed other elements of size, which include market share, sources of finance, decision-making, locations or geographic spread and typical ownership.

Students mostly provided good examples for this question by referring to well-known businesses to support their responses. However, some students discussed small, local businesses that their marker was not likely to be aware of.

Question 3

A greater number of students attempted Question 3 than Question 4. Most students interpreted the question accurately and referred to correct answers. Location and Staffing/Employees/Business Culture were common answers. These were not always well expressed, but most students were able to achieve marks for stating them correctly.

Difficulty was encountered at the 'change' aspect of the question. Some students forgot to discuss the change, or to link it back to the impact on a stakeholder. Overall, though, the question was very well attempted by all students. Typically, this question achieved the most marks of Part I (the first four questions) of this section.

Potentially the three-step process to answering the question over-complicated the question for communication purposes - define, change, stakeholders. Some students got lost in the multiple parts of the question, but overall the question was well attempted, and clearly favoured.

Question 4

This question was attempted in a variety of ways, and by only 10% or so of the students.

The wording of the question meant that students took one of two approaches to the required two examples. They either (1) described two actual businesses and how they were fulfilling their CSR or (2) described two ways in which businesses are fulfilling their CSR through various business strategies / practices. The first approach was uncommon. Most students referred to sustainable practices more generally, rather than actual businesses. A few did this very well. The range in results was vast - it was either done very well, or poor to average.

Because of the varied interpretations, markers accepted a variety of approaches to the question. Students using the second approach needed to ensure that the implications of the strategies used were well mapped out and linked to CSR.

Because the question specifically called for a discussion of two examples, students could not achieve better than a 5/10 if there were no examples provided. This was the case for some students who discussed the first line of the question, without addressing the second part requiring examples.

Students mostly referred to recycling and sponsoring sporting teams; a very shallow interpretation of the concept. There was very little mention of diversity, business culture, deceptive marketing, collaboration (unions and other parties) and outsourcing, etc. Teaching of the triple bottom line would have been useful for this question (though it is not directly referenced in the course document).

Part 2 – Operations Management

Question 5

Very few candidates answered this straightforward question. Candidates were required to discuss the interrelationship between the four major business functions. Drawing a diagram to help with the explanation was appropriate as was a brief statement of the importance of all four business functions working together to achieve common business goals. Candidates were required to provide two examples of how operations management overlapped with other business functions.

Most students provided the required number of examples to help with their answers. Better responses were able to use their examples to reiterate their explanation of the interrelationship of the other business functions, whilst weaker answers provided examples without a clear link back to the impact on operations management.

Question 6

Students must ensure that they read the question carefully. The focus of this question was quality management and it required candidates to provide TWO examples. Many candidates gave one example. Many candidates also focused on strategies to reduce waste that were not directly related to quality management.

Better examples directly related to aspects of quality management, such as quality control, quality assurance and Total Quality Management (TQM). Use of these terms, with correct explanation of what each meant, provided the necessary evidence of knowledge of the course's terminology.

Candidates were required to, using two examples; explain how quality management could result in less wastage and therefore greater profits. The two examples could have been taken from:

- Quality Control, Quality Assurance and Total Quality Management,
- from two case studies or
- two other operational strategies.

If case studies or other operational strategies were used, better answers focused how the respective business was able to apply these strategies to improve quality, reduce waste and increase profits. An integration of the quality management terms was incorporated into better answers. Weaker answers came up with examples of how waste could be reduced, without providing a link to quality management.

Candidates also correctly indicated that products/services that were able to gain a good reputation for quality would result in positive customer feedback, less sales returns, returning customers, improved brand awareness/loyalty and overall, an increase in sales and gross/net profit.

Question 7

This question required knowledge of cost leadership or product differentiation. It is clearly stated in the syllabus that these are 'Key Concepts in OM' and it was surprising how many students were not familiar with these concepts. Many responses mentioned the benefits of cost leadership or product differentiation but could not describe HOW a business can increase their competitive advantage.

Several responses included both cost leadership AND product differentiation, however the question clearly stated, 'EITHER cost leadership OR product differentiation'. Marks were only awarded to ONE of the options; so, students who did address both options were not given an advantage over students who accurately followed the instructions in the question.

Some responses confused low cost production, an operations concept, with lowest pricing, which is a marketing concept. Students should be careful in their description of cost leadership. Cost leadership is not just about being price-competitive in the marketplace or aiming to have a lower price than competitors. In order to achieve this, and remain profitable, cost leadership is focused on lowering expenses / costs (including the cost of inputs, labour, processing, inventory & quality management).

Generally, responses about product differentiation were better than those on cost leadership because students were able to describe more ways that a business can differentiate a product.

Better answers defined competitive advantage and then defined the strategy selected. No marks were awarded to rewriting the question.

Students need to use proper business terminology as opposed to colloquial terms.

Question 8

Students needed to select TWO operational concepts that they could apply that would save costs.

Poor responses referred to cost reduction strategies without clearly explaining what these were. Better answers used strong operations terminology (e.g. Just in Time inventory management or Total Quality Management), clearly explained what these concepts were, and how they would reduce costs.

Some responses said that staff should be cut, and younger people employed, without addressing the legal/ethical difficulties associated with these ideas. Responses need to explain business terms, concepts, principles and ideas (Criterion 1) and not provide recommendations.

SECTION B

General comments

- Students should take care to relate their answers to the stimulus material, to draw information from it, and to provide answers that are relevant to the business, and the business environment, described in the stimulus. In particular when giving examples students should try to draw from the stimulus material (i.e. outdoor products) rather than use a generic, made-up example.
- Students should not spend any time rewriting the question, but should begin immediately answering it using as much business terminology, and links between business concepts as possible. Business terminology was lacking again this year, and there was a clear misunderstanding of some terms e.g. absenteeism, financial stability, cash vs profit, cash flow and stakeholders.
- Students should read questions carefully to take note of the requirements of the question. For example, students will often give solutions to an issue rather than explain or evaluate it. Criterion 3 requires discussion of business issues, Criterion 4 asks for recommendations. Students should take note of the question, key words that need to be addressed and the relevant criteria.
- Students should also take care when using bullet points, as too many students use these out of context or do not explain each point. A 'Discuss', 'Explain' or 'Evaluate' question cannot be answered adequately by bullet points or a list. There must be some sentences to show discussion of the points, or each point should be a full sentence.
- Students are reminded to use the course content and terminology relevant to each question e.g. Q 9 is on Marketing management, so students should ensure they use marketing strategies, objectives and other marketing terms and concepts.

- Students should avoid discussion of lazy, unhappy / happy, old or young employees. Describing employees as lazy or unhappy does not demonstrate an understanding of business terms and concepts. Students may instead suggest that employees are unproductive, unmotivated and/or dissatisfied with their job, or that staff morale is low, or business culture poor / negative. Business terminology must be used at all times.

Students should also be cautious in their discussion of old and young employees, as many ill-advised stereotypes are often used by students, e.g. young employees are better with technology. Students also frequently recommend discriminatory actions which are illegal e.g. sack all the older workers, hire only young employees. Such responses indicate a lack of business knowledge and a need to fall back on assumed knowledge, which has no basis in fact. Students may discuss hiring more cost effective employees but references to age are not acceptable.

Question 9

- (a) Students generally did this quite well, though several students were side tracked in discussions that did not relate to the marketing management business function.
- (b) Several students spent time defining 'target market' when the question did not ask for this. Unfortunately, no marks were awarded to definitions of target market. Other students misunderstood the question and explained the different approaches to identifying and selecting a target market (mass, niche and market segmentation approaches) with several students explaining the ways to segment a market (geographic, demographic, psychographic and behavioural) – none of which was required.

Refinement of marketing strategies was a common response. Some of the best responses also mentioned the efficient use of marketing resources, cost effectiveness and relevance of marketing strategies to the consumer. A few students mentioned that identifying a target market allows for market research that is more effective.

- (c) This is NOT a question about pricing methods or pricing strategies requiring a solution to overcome the problem. Students did not seem to understand what competitive pricing in a market meant or did not specifically talk about business performance. Students must be specific about the areas of business performance impacted by highly competitive pricing, e.g. it can decrease sales, may decrease profit, can make maintaining / growing market share difficult.
- (d) This question was generally well done, though students were better able to explain impacts on customers than on suppliers.
- (e) This question required a lot of detail for 6 marks, and this was difficult for many students. Students generally attempted brief explanations of legal and ethical consequences well. Several students were confused about the difference between ethical and legal consequences, and included a large overlap between the two concepts, or combined them in to one discussion. Better responses provided at least three key points or sentences on each, and kept their two separate discussions specific to ethical and legal consequences respectively.
- (f) This question was generally answered well. Better responses ensured that the promotional strategies outlined were relevant to the requirement that they improve online sales, including online advertising and promotions directing customers to the website. The best responses made it clear how the strategy outlined would improve online sales.
- (g) Students were well able to explain how business performance could be improved in general terms; though answers also needed to link the improvement in business performance to increased online sales (which is what strategies in (f) related to). Better responses referenced the strategies outlined in (f) and the resulting increase in online sales, and were able to differentiate between short and long term improvements in business performance specific to Hilltops.

Question 10

- (a) This question was generally well done, however it was disappointing that many students did not draw from the rich stimulus material in responding to this question. It is expected that students will discuss the stimulus rather than make generic assumptions.

Several students discussed operations management issues in relation to technology and were unable to receive marks for this human resource management (HRM) question, without drawing direct links to HRM.

There was some discussion of employees being distracted by social media due to the new technology and markers felt that this was not the best response. It is not clear exactly what the new technology is; only that it probably relates to increasing their online presence. Students should be aware that personal social media use is not tolerated in the workplace. An appropriate angle here may have been the need to introduce a policy to address the possible misuse of the technology by employees; as such distractions are unacceptable in a professional workplace.

- (b) There were two main approaches to this question, which was reasonably well done by most students. Students either, (1) chose two benefits and described the laws and regulations that made these possible, or they (2) described two laws and regulations and their associated benefits. Either approach was fine. Some students outlined the benefits without mentioning specific law and regulations. This approach was marked on merit, but did not achieve full marks. A few students mentioned the ACCC here, which is not relevant.
- (c) Most students achieved up to 3 marks for this question, with fewer students writing full mark responses. The question had several parts and they all needed to be addressed. Many students focused on the impact on profit and neglected to discuss a wider range of business performance measures e.g. productivity, efficiency, quality, customer service. Better responses either explained several impacts, linking each to both performance and profit, or split the question discussing performance and then profit.
- (d) It was hard for students to achieve 3 marks for each impact, with many responses not providing enough detail. Students tended to focus on increases in workload for both managers and employees, and should consider a broader range of responses to this type of question e.g. concerns around job security for employees, need to train and develop remaining employees for managers.

Several students mentioned that employees who had left would need to be replaced, and that this would take up the manager's time. This is not correct, employees are being reduced (as per the stimulus) in order to achieve business objectives such as reducing costs. Other students said that managers would have more money to spend given they would be paying less in wages. This is also incorrect. Managers have a budget for wages that would be reduced in line with the reduction in employees; particularly in this case where the business is cutting costs.

Student's experiences working in retail were also evident in their responses to this question with many saying that the manager would need to step in and do the work of employees who were let go. This is not necessarily the case in most workplaces.

- (e) This was not an easy question, and was not done well by most students. The question needed discussion of one social and one economic implication and many students either did not know what this meant or did not provide enough detail. A one sentence or key point per mark rule is useful here, as are examples.

Students should remember that social implications are associated with the local community (or society more broadly, depending on the example / context). In this case, since the question related to staff working more flexible hours, responses around employees quality of life, work life balance and job satisfaction were acceptable.

Students remain confused about what is meant by economic implications. It should be stressed that 'economic' is not the same as financial management. Students should not be writing about the business's financial situation in an 'economic' question, except as it relates to the economy more broadly. Focus should be on either increased productivity or implications for the local economy (e.g. more jobs / participation in work, choice, increased economic activity).

- (f) Most students achieved 2 marks for this question, either through the combination of several half marks or a too short answer. Insufficient detail hindered some students but a lack of terminology and knowledge of course content was also a barrier to success. In addition, many students focused on strategies either to recruit new employees OR to decrease staff turnover – and did not address both aspects of the question.

Two recruitment strategies, which help in decreasing staff turnover, were required. Students who grasped this achieved a better result.

There was some discussion of hiring younger employees because they are cheaper but this answer missed the crux of the question (decreasing staff turnover). Students also mentioned paying higher wages, and this answer received only part marks given the business's financial situation.

Several students said that Hilltops needed to hire the right staff, without explaining how the business might do this or with too brief explanations that did not use appropriate terminology and/or knowledge of business concepts.

- (g) Students seem to have a general lack of understanding of how to differentiate between short and long-term business performance improvements, and as such, there was a lot of repetition in student responses to this question. In addition to this, issues of insufficient detail and a lack of terminology were also evident in student responses.

Better responses structured their answers by providing a heading for their two strategies used in (f) under short and long term. This enabled a thorough and well thought out response to the question, with clear links between students' previous strategies and business performance in the short and long term.

Question 11

- (a) Many students defined gearing and/or addressed what a gearing ratio of over 100% means, rather than discussing the issues that would impact the business. Unfortunately, no marks were allocated for a definition of gearing ratio or what it meant.
- (b) This was a more general theory question, rather than specifically relating to Hilltops. The question DID NOT ask for a definition of either equity or debt finance and no marks were allocated to definitions.

(c) Many students wrote 'poor cash flow reduces profits' but did not explain how this happens. It was clear from many of the answers that students did not understand, or had not been taught about, the difference between cash and profits. To explain further:

- Cash can be high in a business, but profits are low or non-existent IF the owner is injecting funds to 'prop' the business up or is somehow able to source external finance.
- Profits can be high, but cash can be low (or negative) if many of the sales are on credit and there are issues in collecting the accounts receivables in a timely manner (30 days or less), and/or suppliers are being paid cash.

(d) There was unfortunately a problem with this question as the initial question asked for 'challenges' but the sub-heading provided stated 'impact'.

Many students continue to confuse STAKEHOLDERS with SHAREHOLDERS. There were many students who received 0 marks out of 3 because they outlined the impacts/challenges for employees, suppliers, or the community (who are Stakeholders NOT shareholders).

(e) Answers could have been from the positive or negative perspective. Environmental implications were generally better explained than economic implications.

(f) Many students misinterpreted or misread this question and explained marketing or operational objectives, rather than financial objectives. This was clearly a financial management question, and as such, no marks could be allocated for any marketing or operations objective.

(g) This question was focused on how the objectives improved CASH FLOW and FINANCIAL STABILITY. Many students discussed profitability, which was not the intent of the question, and therefore marks could not be allocated.

SECTION C

General comments

The majority of students attempted Question 12.

Question 12

Part A

Overall, the SWOT analysis was answered well. Some students were confused about the difference between internal (strength / weakness) and external (opportunity / threat), for example many students listed 'decreasing profit margins' as a threat.

Opportunities, overall, were not answered well. Many students did not differentiate between how something would be a simple internal business decision, e.g. to offer more workshops, and what might be happening outside the business for this to be an external opportunity, e.g. increased interest in learning about gardening means more workshops could be held.

Part B

(i-iii) Overall, the ratios were answered well.

Students lost half a mark in question (i) for not saying the number was in days but did not lose marks for not rounding up/down. Debtors Collection period should not be rounded to the nearest day, rather the nearest two decimal places. At the moment, some teachers instruct students to round to whole days, while others teach that part days (decimal places) are fine. According to several business studies texts this calculation should not be rounded to a whole number; incremental improvements or deterioration of this ratio are more evident in historical data if decimals are included. An amendment to the formula sheet would clarify this for teachers and students.

Students lost marks in question (ii) if they did not give the answer to two decimal places or put a percentage sign in. For question (iii) students also lost half a mark for not saying that the ratio was to 1, e.g. 1.5: 1.

(iv-vi) Students generally either did well on all three questions or not well on any. Overall, however, these questions were answered well.

In Question (iv) some students demonstrated an obvious lack of understanding about the links between solvency, the gearing ratio and the ability to pay long-term debts. Teachers should ensure they use the term solvency, as well as gearing and financial stability, when teaching the ratios. Better answers referred to the gearing ratio calculation in (ii) and if this was good / bad for the business and what an acceptable / preferred, level might be.

(vii) Overall, this question was not answered very well. Many students simply provided a narrative of the numbers without providing any conclusion about how or why the changes may have been expected, if the expected changes were an improvement or deterioration, or whether the expected 2018 ROROE was better or worse than the industry average.

(viii) Better answers referred to the fact that the business has quite a high gearing ratio but a sound level of short-term liquidity and that an online presence would probably help them to compete in the long term. Better answers also referred to the question and discussed the impact on both online ordering and the offering of gardening workshops.

(ix) Overall, this question was answered well but not in enough depth. Students picked out an option to improve cash flow (e.g. reduce wage costs) but did not go on to explain how it could be done.

Part C

(x) Most students had a go at organising the expenses into fixed or variable. Since the question asked – how many people needed to attend the class to break-even, wages were fixed. The workshop is 2 hours, regardless of how many people attend. Because wages do not change per class, they are fixed. Whilst materials will change dependant on the number of participants, so are a variable cost.

Part of the scenario was unclear to students –

Each workshop takes four weeks for 2 hours per session (the number of workshops was not made clear)

The majority of students took the question in two ways, which are outlined in the suggested answers. Marks were given for other options also. Most students got between 1.5 to 3 marks, depending on whether there were small errors. Half a mark was deducted for leaving off units/people.

(xi) Many students made a good attempt at manipulating the formula. Marks were given for carrying the mistakes through. For example, if students in part (x) had the wrong amount for the fixed costs and they carried this amount through; full marks could have been attained if the manipulation of the formula was correct.

Students needed to be careful to ensure they incorporated all the information in this question; the new selling price of \$120, and the number of participants needed to break even is now 20.

Half a mark was lost for not including the \$ sign. Marks were deducted for errors throughout the algebra.

(xii) Students generally found this question challenging. Students needed to draw together a conclusion and write in words what the variable cost from the previous question was. For example, (1) Variable costs could be a maximum of \$80 to cover costs for 20 participants if the price charged is \$120 OR (2) Variable costs could be a maximum of \$95 to cover costs for 20 participants if the price charged is \$120. Marks were given for mistakes carried through.

Many students were able to comment on the original variable cost of \$100 and the variable cost in part (xi). E.g. if the first one was \$100 and they calculated \$80 in part (xi), variable costs would be \$20 less.

xiii) Most students did this question well and came up with an excellent measure. ONE measure should have been given, with a description of how it would allow a class size of 10 participants without losing money, rather than 2 suggestions briefly done.

Part D

(i) Overall, this question was not answered well. Many students discussed marketing or operational strategies instead of goals. Few students offered a measurable goal with a time frame, e.g. increase sales by 20% by 2020. Better answers were also tied back into the stimulus business, and discussed how the suggestion would extend the product life cycle of the business's seasonal plants.

(ii-iii) In general, most students did refer to the SWOT analysis from Part A. If students had provided a wrong answer in the SWOT but then chose to write about that opportunity / threat, marks were not lost for a second time.

Students needed to link their strategy and threat / opportunity back to the stimulus business. For example, the threat may have been poor weather conditions and the operations strategy then needed to say how this could be overcome. Some students suggested increasing efficiency of production by installing green houses and sprinkler systems, which would also extend the growing season.

(iv) Students needed to make sure they wrote enough for 3 marks for each. One sentence or key point per mark is a useful guide.

(v) Unfortunately, many students rushed this question or had run out of time. The other concern was that many students did not understand the concept of positioning.

Students should have provided one recommendation for each aspect. Better answers linked their recommendations back to the product life cycle of the plants, how this could be extended and how it would improve business performance.

(vi) Only a few students received 6 marks due to insufficient detail or running out of time.

Question 13

Part A

Overall, the SWOT analysis was well done by most candidates. Better answers had read the question carefully and realised that there was no Huon Garden Centre. These students understood that a business plan for the business had not yet been established, and that this was only a business proposal, for which a mission statement only had been developed by community leaders wishing to create a sustainable business employing and training young unemployed people, and other appropriate staff.

Single word answers are not acceptable in any SWOT. In particular, stating the single word 'location', was not considered a strength because the location is not yet confirmed, as the stimulus states that Council WILL be approached for permission to use the site.

Competition could be a threat or an opportunity, depending on reasoning.

Part B

(i-iii) There was a problem in the 'Extra information' for this question, which said that ratios should be calculated from the information in a balance sheet in page 18. There was no balance sheet, just a Cash budget and Projected Income statement.

Some students expressed ratios as dollar (\$) figures which was incorrect. Students lost half a mark if the percentage sign was omitted.

For parts (iv) – (vii) many students did not show their understanding that the figures provided were projected budget and income statement figures.

(iv) There was a general lack of understanding about profitability.

Statements such as:-

- "NPR should be somewhere between 10-18% to maintain profitability, which it is not"
- "GP benchmark is 20% and NP benchmark is 15%"
- "NP benchmark is recommended between 10-18%"
- "an acceptable NPR is 10%"

Do not show that students understand that profitability relates to the type of firm, its size, its asset structure, past performance, competitors and industry averages. There is no one reliable benchmark that applies to all firms; though higher is better.

Another common mistake was to state that gross profit was 54.55%, when it is more accurate to say that the gross profit ratio is 54.55%.

Markers failed to see how spending on Buildings and Equipment (\$1.4m) is part of profitability.

(v) Several students stated that the current ratio was expected to rise by 0.5. Whether or not this was an improvement or deterioration was not clear, and did not demonstrate an understanding of the meaning of the current ratio.

It is important to state that the current ratio shows how many current assets are available to meet every dollar owing to external parties in current liabilities. It is important that mention be made of the ability to meet short-term obligations.

Students are reminded to refer to current assets and current liabilities when comparing liquidity. Stating, "liquidity is lower by 0.7" was not at all clear. Students are encouraged to learn how to interpret and write about the current ratio accurately.

(vi) This question was generally well done, though some students had difficulty in selecting debtor's collection period for discussion and/or did not explain how expected changes in the figures and comparisons with the industry average were favourable or unfavourable.

(vii) Addressing a debt collection policy was described as a positive way to improve cash flow e.g. offer incentives for debtors to pay more promptly, reduce credit terms.

Getting a loan was not considered a recommendation to improve cash flow, as there are already high levels of liabilities outlined in the business proposal. Decreasing cash purchases was also not a viable option for increasing cash flow because the budget shows that cash purchases are predicted to be reasonable compared to cash and credit sales.

Many students were unable to explain clearly the connection between cash flow, net profit and paying off debts.

Part C

This part of the question was quite complex and proved challenging for most students. There was also a general lack of understanding of the nature of costs, with few students showing any depth of understanding.

(viii) Overall this question was poorly answered with few students able to calculate correctly the break-even point. Most correctly identified that the overhead costs were fixed costs and the costs for pot and soil were variable. The treatment of wages varied between fixed and variable costs with only few students able to arrive at a logical answer that utilised all the costs outlined in the questions. Some students lost half marks for not including “units” or “seedlings” or failing to correctly round their answer.

(ix) This question was generally answered well. Due to the nature of this question, the answer given by students who attempted this question was dependent on their answer to the previous question and as such responses were assessed on merit with the proviso that the various costs were treated the same for both questions. Students were generally able to manipulate the break-even formula properly.

(x) Most students who attempted this question confined their response to restating the answer to question (viii) in a sentence form. Better responses recognised possible impacts of increasing the price on demand or the need to reduce costs, as well as integrating the answer to question (viii) into their answer.

(xi) Students who attempted this question tended to simply state or outline the measure that the business should take with most answers suggesting that the business ‘lower fixed costs’. Better answers described how the measure would impact on fixed or variable costs, provided concrete recommendations and / or included further break-even calculations.

Part D

(i) Students did reasonably well in this question, though a significant number of them confused goals with strategies or methods. Some students described a financial goal instead of marketing goal, and were thereby not able to gain full marks for this question. Students who performed well on this question couched their answers as ‘SMART’ goals.

(ii) Most students did not fully answer this question; instead, they named a finance strategy but did

not provide any discussion or analysis of the strategy. Answers needed to be clearly linked and relevant to the strength or opportunity identified by the student in Part A, with most students suggesting strategies that reduced or controlled costs.

- (iii) Like question (ii) above, most students failed to fully answer this question, as they did not provide any discussion or analysis of the human resource management strategy. Answers needed to be clearly linked and relevant to the strength or opportunity identified by the student in Part A.
- (iv) Many students did not analyse the impacts on the stakeholders set out in the question, instead focusing on the impacts on the business itself or the lower skilled and vulnerable youth. Better answers discussed multiple impacts upon each of the stated stakeholders with one mark given for the discussion of each impact.
- (v) The quality of responses to this question varied greatly.

Many students misunderstood what was required in Recommendation 1. The question required students to firstly provide a recommendation of one low cost promotion the business could use during the establishment phase of the product life cycle, and go on to describe why that recommendation would be suitable. Most students who did well in this part of the question recommended the use of social media to raise awareness of the product and increase market share.

Recommendation 2 was generally well answered with most students providing a pricing method and pricing strategy in their answer. A number of student's confused competition based and market-based pricing methods and/or price skimming, price penetration and loss leader pricing strategies. In order to obtain full marks for this part of the question, students needed to provide one pricing method and one pricing strategy.

- (vi) This question provided a wide variation in the quality of student responses.

The 'economic implication' part of this question was very poorly answered with most students confusing economic implications with legal implications. The better answers identified the benefits to the local economy that could result from relying on government funding.

In contrast, the 'legal/political implication' part of the question was well answered. Most students discussed the political implications rather than legal implications. Most answers discussed the need for the government to be seen to be funding appropriate projects, and not wasting taxpayer's money. Several students assumed that the government funding took the form of a loan and discussed the implications of debt financing on the business and possible legal implications of failing to pay back the loan.

SUGGESTED ANSWERS

SECTION A

Part I – The Business Environment

Question 1

*The role of business can be examined from social and economic viewpoints. Describe **TWO** roles that small businesses play in society, and how they contribute economically and socially.*

Marking scheme: 5 marks for each role, comprised of 1 mark for describing the role, and 1-2 marks for each social/economic contribution (depending on level of detail).

Roles of business

- Production of goods & services
- Provision of employment
- Provides income for employees and owners of the small business
- Provides a choice of goods & services for society
- Drives innovation, improves quality of life
- Generates innovative products & services, developing technology

Economic contribution

- Small business owners create jobs for themselves and others (lowering unemployment levels, increasing income in the economy)
- Small businesses ensure that there is a wider range of products & services available to consumers, providing greater choice
- Increased competition keeps prices low
- Government benefits from increased economic activity & fewer individuals requiring government assistance (due to lower unemployment)
- The economy benefits due to increased economic activity

Social contribution

- Jobs, innovation, increased choices and competition all lead to improvements in quality of life
- Provision of essential goods & services to the community
- More businesses are focused on business ethics, sustainability and corporate social responsibility (CSR), seeking to engage with the community / society and have a positive impact

Useful textbook resource - *Business Studies in Action Preliminary course (5th edition) p.4-19 Chapter 1 'Role of Business'*. This textbook excerpt covers the primary role (function) of business – the provision of goods and services that satisfy individuals' needs and wants – as well as those outlined above in a diagram from pg.9 of this text.

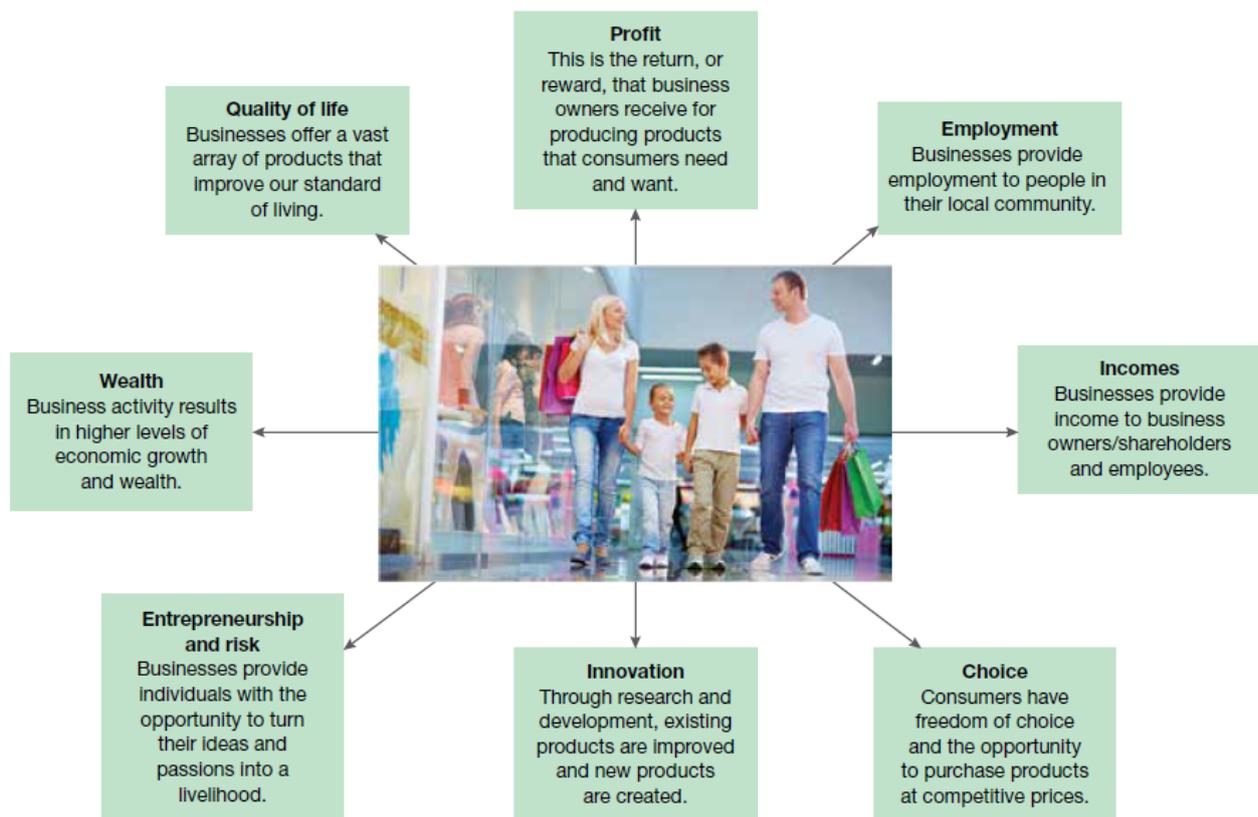


FIGURE 1.6 The economic and social importance of business

Question 2

*Businesses can be classified in a number of ways. Identify **TWO** types of business classifications. For each type of classification, describe **TWO** elements.*

Marking scheme: 5 marks for each classification, comprised of 1 mark for describing the classification and 2 marks for each element.

Classification of business

- Size – small, medium, large, SMEs
- Geographical spread – local, national, global
- Industry sector – primary, secondary, tertiary
- Legal structure – sole trader, partnership, private company, public company
- Public, private & community sectors

Size

Size is another way of classifying businesses. This can be based on several measures including the number of employees within the organisation, its market share or sales turnover (total revenue).

Businesses employing ...

- Large: 200 people or more
- Medium: between 20-200 people
- Small: less than 20 people
- Micro: less than 5 people
- Students may also mention SMEs (small to medium sized enterprises)

TABLE 2.1 Quantitative measurements and qualitative descriptions of small, medium and large businesses

Characteristics	Small	Medium	Large
Business type	Corner store Local mechanic Hairdressing salon	Services club Motel/hotel Engineering factory	Woolworths Qantas National Australia Bank
Number of employees according to the Australian Bureau of Statistics (ABS) business register definition	Fewer than 20 employees	20–199 employees	200 or more employees
Type of ownership	Independently owned and operated by usually one or two people	Owned and operated by a few people and/or private shareholders	Owned usually by thousands of public shareholders
Most common legal structure	Sole trader Partnership	Partnership Private company	Public company (numerous)
Decision making	Owner responsible for majority of decisions; simple and quick implementation of decisions	Owner basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors	Complex decision making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management
Sources of finance	Owner (usually from own savings or a loan); difficulty in accessing loans	Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans	Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions
Market share	Small, usually local area; not dominant in the industry	Medium, due to dominance within a geographic region; some market dominance	Large, especially for multinational corporations that dominate the markets of many countries

Geographical spread

Relates to the presence of a business and the range of its products across a suburb, city, state or country or the globe.

- A **local business** has a very restricted geographical spread; it serves the surrounding area.
- A **national business** is one that operates within just one country.
- A **global business**, commonly referred to as a multinational corporation, is a large company that has branches in many different countries.

Industry Sector

<i>Sector</i>	<i>Definition</i>	<i>Features</i>	<i>Examples</i>
Primary	Extraction of natural resources, harvesting of raw materials	Provide the raw materials to the secondary sector	Mining, agriculture, fishing
Secondary	Use the raw materials from primary industry to produce goods	Usually referred to as the manufacturing industry	Diamond is shaped, polished, cut then transformed to a pendant
Tertiary	Provides services for the economy (as opposed to physical goods)	Around 75% of Australian economy is service based, retail sector	Transport, leisure, entertainment, education, legal advice

Legal Structure

Private sector businesses fall into 2 main groups - Incorporated or Unincorporated. An **incorporated business** (private and public companies) is registered as a company under the Corporations Act 2001 and becomes a separate legal entity in its own right. For an unincorporated business (Sole Trader and Partnership), there is no legal difference between the owners and the business itself. Owners have complete legal responsibility for the business.

Type of Business Ownership	Features
Sole Trader – one person provides the finances, has full control (ownership) of the business and can keep all the profits.	Most common form of business ownership. Often used by tradespeople when establishing themselves in the market.
Partnerships are agreements between two or more people (2-20 with some exceptions) to carry on a business together, usually with a view of making a profit.	A Deed of Partnership establishes the rights and privileges of the partners. Including voting rights, distribution of profits, and management role of each partner and who has the authority to sign contracts.
Private Limited Companies are incorporated business that can have up to 50 shareholders, and their shares are not sold on the stock exchange.	<ul style="list-style-type: none"> • Relatively small companies • Business name ends in Ltd • Shares transferred privately and all shareholders must agree • Often family businesses owned by members of the family or close friends
A Public Company (plc) has shares listed on the Australian Stock Exchange (ASX); the public may buy and sell shares.	No restrictions on shareholders or share capital, are required to lodge their annual accounts with ASIC. Companies are subject to company tax.

Public, Private and Community (non-profit) sectors

Public Sector	Examples
Businesses owned by the government. Aim to provide the community with essential goods and services.	E.g. Centrelink, Medicare, Royal Hobart Hospital
Private Sector	Examples
Businesses not owned by the government. Legal structure can be Sole Trader, Partnership or Company (public or private). Generally, these businesses have profit as their motive.	E.g. Telstra, MBF, Banjo's
Community Sector	Examples
Usually part of the private sector, but its main aim is not to maximise profits.	Non-government schools, hospitals, aged care facilities, community organisations

Useful textbook resource – Business Studies in Action Preliminary course (5th edition) p.20-47 Chapter 2 'Types of Business'.

Question 3

Describe TWO internal influences on the business environment.

Explain, using an example, how changes in each internal influence could affect ONE stakeholder of a business.

Marking scheme: 5 marks for each internal influence comprised of 2 marks each for describing each internal influence, 3 marks each for changes in each influence & the way a stakeholder will be affected.

<p>Internal Influences</p> <ul style="list-style-type: none"> ● Product ● Location ● Management ● Resource management ● Business culture ● Organisation structure 	<p>Stakeholders</p> <ul style="list-style-type: none"> ● Managers ● Employees ● Suppliers ● Customers ● Shareholders ● Society / Local community ● Government ● Future generations
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Internal influences

- **Products** - production vs service delivery, production requires management structures to monitor processes, also affects resources required, organisational structure, policies & processes, other business strategies
- **Location** – complementary businesses, cost, proximity to suppliers, human resources, distribution channels, foot traffic, etc.
- **Management** – communication (top down, two way), management styles (authoritative, persuasive, consultative, participative or laissez faire), different approaches work for different work places / industries e.g. creative industries require a less authoritative management style, work places involving risk & hazardous work may benefit from a more authoritarian approach.
- **Resources** – includes human resources, equipment, machinery, buildings and raw materials, availability of capital, technology in use, access to infrastructure & information required to make business decisions
- **Business culture** - System of values and beliefs shared by the people within an organisation. Affects how they behave or act towards each other & stakeholders (e.g. customers, suppliers). Creates a shared view of organisational values, priorities, commitment and personal worth within an organisation. Employees who have a clear idea of expectations feel a greater sense of belonging (links to employee productivity, morale & retention). Powerful tool for achieving goals. Force for positive change. Strong culture leads to success.
- **Organisational structure** – can be determined by the business strategy/goals, size & age, complexity, geographical location, management style, stability of the business environment (how quickly does the business need to adapt?) and production method used. Affects communication, management & the organisation's ability to respond to changes in the business environment.

Examples of internal influences on business and the effect on a stakeholder

- Depending on the product (good or service) offered, employees with different skills will be required, the level of risk may also impact on employees (e.g. mining)
- The location may influence the costs for owners & managers in terms of logistics
- Access to resources may also be impacted by location affecting managers/owners

- Management style may impact on employees in a positive or negative way, potentially affecting morale, staff turnover and productivity
- The resources a business has at its disposal may impact on shareholders, for example, if there is an opportunity in the business environment which the business does not have the capital to pursue shareholders miss out on an opportunity for an increased return
- Business culture impacts on employees and managers. If the business culture is very negative turnover may be higher, complaints and grievances more common and employees less engaged / satisfied with their jobs

Useful text book resource - Business Studies in Action Preliminary course (5th edition), sections 3.4 Internal influences on business & 3.5 Stakeholders, p. 70-85 of Chapter 3 'Influences in the business environment'.

Question 4

*Businesses are recognising the need to act in a transparent manner in their interactions with other businesses, individuals, society, the environment and the government. Describe, using **TWO** examples, how businesses are fulfilling their corporate social responsibility (CSR).*

Marking scheme – 5 marks for each example (whether actual business examples, or examples of business strategies / practices). Students must include two examples in their answer, describe each one, and link each example to CSR.

Corporate social responsibility challenges each business to be accountable for the consequences of its actions. This means businesses must consider effects on all stakeholders while pursuing traditional economic goals. Examples fall in to the categories of (1) ethical behaviour, (2) social responsibilities and (3) environmental sustainability, including but not limited to:

- Respecting the interests of stakeholders, the environment
- Doing more than just complying with laws/regulation, going beyond what is required to be accountable for the actions of the business
- Adopting a Triple Bottom Line approach (TBL)
- Supporting gender equity, equal pay

- Supporting diversity more generally, celebrating diversity in the workplace
- Increasing flexible work arrangements
- Reducing environmental impact
- Establish a community volunteering scheme in the workplace
- Auditing the supply chain to ensure that all inputs / products are ethically produced, socially responsible and environmentally sustainable
- Work toward a carbon neutral status
- Pay employees above award wages
- Provide a safe working environment
- Work with lobby groups to improve business practices, be open to change / improving ethical standards, ways of doing business

Useful text book resource - Business Studies in Action HSC Course (6th edition), section 2.3 Corporate social responsibility, p. 36-43 of Chapter 2 'Influences on Operations Management'.

Part 2 – Operations Management

Question 5

Business operations interact with other business functions. Using TWO examples, describe how the operations management function can overlap with the marketing, human resources or financial functions of a business.

Marking scheme – 5 marks each example. Students must include two examples and adequately explain how each illustrates an interrelationship / overlap with the operations management function.

Operations management is the management of business processes that involve transformation or, more generally, production.

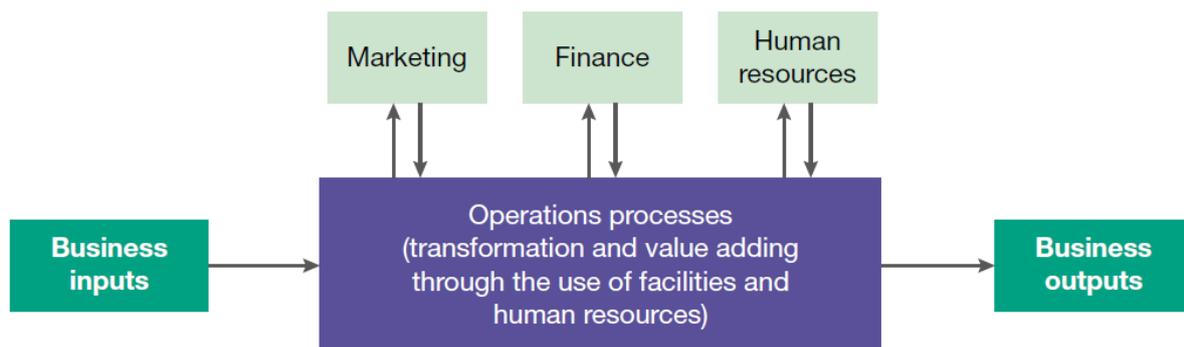


FIGURE 1.1 The overlap of operations with other key business functions

(Chapman et al, 2018, p. 4)

Examples of overlap with other business functions:

Finance

- The Financial Manager must communicate with the Operations Manager to ensure input is provided to the setting of financial goals and the budgeting process, and the development of operational strategies in order to meet broader financial goals.
- Requirement for finance in the purchase of new technology to be used in the transformation process.
- Need finance to purchase new equipment and assets to develop solutions with improved technology. This may disrupt production and may be costly in the short term.

- Spending on research and development to maintain competitive advantages.
- Need to control costs in the production process when purchasing inputs and assets.
- Collect data from operations system to analyse financial performance.
- May need funds to train staff in the use of new technology / production processes
- Must be aware of operations costs in order to engage in breakeven analysis

Marketing

- Marketing Manager must communicate with the Operations Manager to provide input into the setting of marketing goals, and to report on marketing research in order to ensure Operations are providing the type and quality of product that the target market desires.
- Marketing strategies must also be employed in order to coordinate with new or improved products designed by Operations, especially if a rebranding or repositioning of the product range is to occur.
- Must understand product features to market product.
- Must understand the price customers are willing to pay, as well as the reasons why which leads to product development
- Must understand the target market to generate more sales
- In order to produce a product which marketing have designed the operations management function needs to develop the capability to manufacture/deliver the good / service

Human Resources

- Employees are sourced (recruitment) with the appropriate levels of skills, experience or aptitude to undertake the roles identified by the Operations Manager
- Appropriate training and development in order to maximise employee performance
- Working conditions and maintenance are lawful and conducive to a safe and productive workplace
- If the Operations Manager requires less employment of human resources, the HR Manager is required to manage this aspect of the HR Cycle, namely, Separation.
- Provide a positive business culture and motivated staff to ensure wastage is minimised and sales are maximised
- Assist in the empowerment of employees in establishing a TQM approach

Useful text book resource - Business Studies in Action HSC Course (6th edition), section 1.4 Interdependence with other key business functions, p. 18-23 of Chapter 1 'Role of Operations Management'.

Question 6

*Using **TWO** examples, describe how quality management for a product or a service can lead to less waste and increased profits.*

Marking scheme – 5 marks for each example, flexibility required as some students may discuss two specific business examples, others may use two examples of quality management techniques/strategies (outlined below). Better answers will incorporate some of the below terminology. Must explain clearly how waste is reduced & profits increased.

Quality management may involve -

- Quality assurance – set standards, establishing quality benchmarks
- Quality control – inspections of product quality during &/or at the endpoint of the production process
- Purchasing quality inputs
- Maintenance of machinery to ensure quality outputs
- Training of staff in the use of machinery to reduce human error impacts on quality
- Total quality management (TQM)
- An ongoing business wide commitment to quality, making quality every employees responsibility. Includes:
 - Continuous improvement
 - Employee empowerment
 - Customer service

Useful textbook resource - Business Studies in Action HSC Course (6th edition), section 4.8 Quality management, p. 102-106 of Chapter 4 'Operations strategies'. Other pages in this text of interest on quality p. 30-31 & 75-76 and on minimising waste (lean production) p. 6.

Question 7

All strategic operational decisions will focus on lowering costs and producing a good or service that is different or more competitive. Describe how a business can increase its competitive advantage by EITHER cost leadership OR product differentiation.

Marking scheme: 2 marks for a definition of competitive advantage, 8 marks for the strategy, (including a definition of the term and full explanation of how it can increase competitive advantage).

Cost leadership

- Aim to have lowest costs in the production process, or to be the most price competitive in the market (not necessarily the lowest price)
- Keeping costs of production low allows the business to offer their product at a competitive price to consumers while remaining profitable
- Strategic operational decisions may include: - sourcing low cost inputs, supplier rationalisation, outsourcing, deskilling, use of technology (automation), reducing waste, increasing efficiency, utilising economies of scale to reduce production costs (e.g. buying in bulk)

Product differentiation

- Can be achieved by distinguishing the product / service from others in the market.
- They can vary the product features, augmented features, intangible features, packaging, branding, size, amount, flavours, quality to suit target markets
- Can be achieved by varying the quality of materials/technology used in service delivery, varying the qualifications and experience of the service provider
- Custom-designed products
- Unique features and applications
- Incorporation of new technology
- More reliability, longer life, innovative design
- Follow up service, warranties, guarantees

Useful text book resource - Business Studies in Action HSC Course (6th edition), section 1.2.1 Cost leadership in the operations function and 1.2.2 Goods/service differentiation, p. 10-14 of Chapter 1 'Role of operations management'. Also useful in this text p. 17-18 on cost leadership & standardised products and p. 31-32 on cost-based competition.

Question 8

Operations processes are activities involved in the transformation process of inputs into outputs. Describe TWO operational decisions that can minimise costs to a business.

Marking scheme – 5 marks for each operational decision comprised of 2.5 marks for each decision & 2.5 marks for how it aids in minimising costs.

Operational decisions to maximise profit: -

- Planning, controlling, scheduling & sequencing (e.g. critical path analysis, Gantt charts) of the production process reduces waste
- Inventory control reduces waste & spoilage, storage costs
- Just in time method of production and/or inventory control
- Quality control, use of quality inputs can reduce waste / spoilage
- Training of staff...reducing human error, improving productivity
- Use of established and leading technology in the production process to decrease costs of production
- Utilisation of machinery...eliminate human error, increase precision, speed & efficiency
- Buying in bulk and manufacturing higher volumes can lead to decreased manufacturing costs as well (economies of scale)
- Outsourcing tasks and functions can decrease costs and decrease the need to employ specialists in the business
- Overall focus on increasing efficiency & effectiveness (business goals) in production
- Changing suppliers to source inputs, supplier rationalisation
- Casualisation of the work force to decrease wages costs without losing skills/ quality staff.
- Outsourcing, offshoring, deskilling, automation
- Total Quality Management (TQM) to reduce waste & increase efficiency
- Maintenance – adoption of preventative maintenance strategy to reduce the costs associated with equipment breakdown & to maximise productivity (efficiency)
- Workflow / process layout improvements – production area is laid out to maximise work flow / efficiency (logically, smooth transitions)

SECTION B

Question 9 - Marketing Management

- (a) Explain TWO issues that result from a poorly managed marketing planning process. (4 marks)

Marking scheme: 2 marks for each issue (1 mark for naming, 1 mark for explaining each one)

Avoid issues that relate to other business functions e.g. results in reduced staff morale.

Suggested answers:

- Poor or absent SWOT analysis leading to a failure to capitalise on strengths, address weaknesses, mitigate against threats and take advantage of opportunities
- Poor or absent competitive analysis leading to decreased market share, reduction in sales
- Inappropriate marketing objectives or marketing mix strategies which do not take the product life cycle into account
- Inappropriate or absent marketing objectives, failure to set strategic marketing objectives leading to stagnation, ineffective marketing management
- Poorly identified target market leading to inefficient marketing and therefore loss of sales
- Increased costs of poor marketing strategies in marketing mix
- Brand (strength, loyalty, image) of product or company can suffer
- Waste of resources – increased costs and inefficiencies. This is a particular problem in light of liquidity issues
- Misses opportunities for marketing in new areas e.g. technology, trends
- Poorly planned or informed market research

- (b) Explain the importance of identifying a target market. (4 marks)

Marking scheme: (2 × 2 – two points with explanations, or a greater number of points with less explanation)

Do not define a target market or explain market segmentation, address the question.

Suggested answers:

- Promotional material is more likely to be relevant and therefore noticed by the target market

- Better understanding of and ability to satisfy its customer's needs and wants
- Business is able to utilise its marketing resources more efficiently, resulting in cost effective and time efficient marketing campaigns
- Attract more customers and develop repeat customers
- Minimising costs in marketing strategies
- To better understand the buying behaviour of the target market
- To have an awareness of trends that are important to the target market, can stock appropriate products at the appropriate price and place for them

(c) Discuss how highly competitive pricing in the outdoor retail market could impact on the business performance of Hilltops. (5 marks)

Marking scheme: (5 marks – 2 or 3 points depending on depth of discussion)

This is NOT a question about pricing methods or pricing strategies requiring a solution to overcome the problem.

Suggested answers:

- Decreased margins (sales – COGS) due to competitive pricing across the market
- Decreased profits due to the need to lower prices or offer promotional discounts / increase spending on promotional activity
- Could lead to cash flow issues, problems paying suppliers and staff
- Could lead to liquidity and gearing issues in the future
- Decreased sales due to not being able to respond to the prices
- Increased costs in marketing as the business has to differentiate itself on more than prices or publicise its unique selling point / proposition (USP)
- Need to develop the product, modifying it in order to differentiate the product more effectively

(d) Evaluate the impact of the changing competition for Hilltops. Describe ONE impact on customers and ONE impact on suppliers. (6 marks)

Marking scheme: 3 marks for impact on customers, 3 marks for impact on suppliers (1 for naming each impact, 2 marks for each explanation)

Impact on customers:

- Lower priced goods and services
- Increased variety, choice (as long as smaller businesses are able to remain competitive)
- May see improvements / innovations in products as businesses seek to gain a competitive advantage / differentiate their products
- Improved customer satisfaction
- Increased disposable income to spend on others goods and services or increased savings
- Customers become more selective / demanding and/or change their purchasing habits

Impact on suppliers:

- Increased competition may mean that sales (volume and/or revenue) will decline, meaning that Hilltops suppliers sales will also decrease (they will sell less of their product to Hilltops)
- Hilltops may ask suppliers to drop their prices due to reduced sales and/or smaller margins
- Hilltops may seek out alternative suppliers, offering cheaper prices
- Hilltops may seek to rationalise their suppliers (i.e. purchase from fewer suppliers) in order to maximise efficiency, seek out economies of scale and/or reduced costs; therefore suppliers will also need to compete against one another / continuously improve
- Less sales means less profit which means the suppliers will struggle to stay profitable, may need to cut costs themselves
- Suppliers could have access to more retailers which could allow for bigger orders so they can cut unit costs due to economies of scale

(e) Evaluate ONE ethical and ONE legal consequence of untruthful advertising. (6 marks)

Marking scheme: 3 marks for each consequence (1 for naming each consequence, 2 marks for each explanation)

Ethical consequence:

- Loss of trust, implications for relationship with customers, shop staff and suppliers
- Customers may have been misled or influenced by concealed facts, vague statements, distorted before & after comparisons, unsubstantiated claims
- Customers may believe that a product or service has a quality and/or feature which it does not, if a false impression of the product was created (e.g. puffery)

- Products may be harmful to some consumers health, something untruthful advertising may have sought to conceal
- Staff morale – reduced due to unethical practices
- Decreased sales and therefore profit (as a result of unethical behaviour)
- Decreased market share (as a result of unethical behaviour)
- Suppliers may blacklist, not wish to be associated with the business

Legal consequence:

- May have breached Australian consumer laws (Competition & Consumer Act)
- Legal proceedings may result in fines, damages, being sued (civil proceedings) or criminal charges if someone is injured
- Involvement of regulatory bodies (ACCC enforcing Australian Consumer Law), possible fines
- Customer returns
- Warranty claims
- Legal costs
- Mandated corrective advertising

(f) Recommend TWO promotional strategies to improve online sales for *Hilltops*. (4 marks)

Marking scheme: 2 marks for each strategy (1 mark for naming, 1 for explaining each)

Suggested answers (must link to improved online sales):

- Access to and promotion of 'Afterpay', or similar, available at the online store
- Creation of a social media page (Facebook, Instagram, YouTube, Pinterest, etc.) – either updating images, videos and product details, using to link with sponsorships or link back to own website
- Establish web presence (website, advertising, social media)
- Send SMS to customers and clients directing them to the website with a promotional offer
- Free shipping from online store
- Newsletter / regular emails which include specials, discount codes and other promotions
- Discounts/Coupons for use online
- Celebrity endorsement of website, links from celebrity social media pages

- Social media influencers endorsement of product & website
- Creation and promotion of an app which connects to the website

(g) Evaluate how the recommendations identified in part (f), will improve business performance for *Hilltops* in the short term and the long term. (6 marks)

Marking scheme: 3 marks for short term and 3 marks for long term (2-3 key points on each for full marks, depending on detail included in explanation)

Short term:

- Often promotional strategies have initial costs – in short term might not make a profit, so improvement may not be evident in the short term
- Initial surge in sales (revenue and/or volume) / market share / cash inflows / profit

Long term:

- Brand recognition, reputation and loyalty have increased
- Increased sales, market share and profit
- Decreased debt, increased liquidity, current assets
- Business growth (e.g. new markets)
- Link to unique selling point > possible improvement in competitive advantage
- Increased number of return / repeat customers
- Sustainable profits, increased value of good will

Question 10 - Human Resource Management

(a) Discuss **TWO** Human Resource Management issues that may arise from a business using an increased level of technology to improve the efficiency of workers. (4 marks)

Marking scheme: 2 marks per issue (1 for naming and 1 for an explanation linking to technology / efficiency)

Answers should be drawn from the stimulus provided.

Answers that are not related to Human Resource Management will not receive any marks e.g. a finance answer to an HRM question is not appropriate.

Issues arising from the use of increased technology to improve efficiency:

- Staff have shown a resistance to change, which could cause difficulties in the successful introduction of new technology e.g. an unwillingness to change work processes
- Due to staff resistance to change it is possible that some staff will separate from the business, and staff with the capacity to use increased technology may need to be recruited
- There is a negative culture within Hilltops, due to fears of job losses and unclear expectations about their roles – the introduction of technology will need to be accompanied by clear communication around potential future job losses and the role of employees to prevent a further worsening of business culture
- Staff turnover has increased, and this could exacerbate the cost of training and development if it continues, due to the additional training which increased technology may require
- Hilltops has a lack of training both for managers and staff – this new technology will not maximise efficiency for Hilltops unless appropriate training and development is provided
- Due to a lack of training at Hilltops job satisfaction has reduced – the new technology could further reduce job satisfaction if adequate training is not provided
- Staff may view the introduction of new technology as a step toward reducing the work force which could cause reduced job satisfaction, increased staff turnover & negative business culture
- Work health and safety issues may arise from the use of the new technology, and procedures may need to be implemented to promote a healthy working environment and prevent injury
- There may be an increase in complaints from employees because of the new technology, relating to either a lack of training or uncertainty about their role
- The introduction of new technology may further impact on an already negative business culture, reducing staff morale and leading to increased absenteeism and/or staff turnover
- Business culture, job satisfaction and/or staff morale could be improved as technology does repetitive work, leaving staff free to do more rewarding work

- Employees may feel that their jobs are being deskilled as technology reduces their role

(b) Explain **TWO** benefits for employees of the laws and regulations that exist to protect workers in Australia. (4 marks)

Marking scheme: 2 marks per benefit (1 for explaining the benefit and 1 for a link to laws and regulations that protect workers)

Benefits for employees of laws/regulations in Australia:

- Protection against unfair dismissal (Fair Work Act, Fair Work Commission)
- Safe working conditions (Work health & Safety Act)
- National minimum wage (Fair Work Commission)
- If injured at work, looked after by employer (Workers Compensation Act)
- Modern Award conditions and wage system (Fair Work Act)
- Minimum working conditions as outlined in National Employment Standards (mention examples from these standards e.g. leave, hours)
- Working conditions, clear roles and responsibilities for staff and employers set out in Employment contracts and Enterprise bargaining agreements (EBA)
- Protection from discrimination (various discrimination legislation)
- BOOT rule (better off overall test) (Fair Work Act)
- Minimum superannuation employer contribution (Superannuation Act / Guarantee)
- Ability to take breaches of workplace laws, awards and registered agreements to independent body (Fair Work Ombudsman)
- Ability to take bullying and harassment complaints to independent body for investigation (Fair Work Commission)

(c) Discuss the impact of having unmotivated and dissatisfied staff, on the performance and profits of *Hilltops*. (5 marks)

Marking scheme: 1 mark for each impact named, additional marks for explanation of each impact (so 4-5 impacts named, or 2-3 impacts explained – depending on depth of explanation) Answers must directly link to BOTH performance and profits for full marks (either half impacts on performance and half on profit, or link each impact to both performance and profit)

Impact of unmotivated and dissatisfied staff on performance and profits:

- These staff are likely less productive reducing their performance, increasing costs and decreasing efficiency (which in turn decreases profit)
- Unmotivated and dissatisfied staff are more likely to do poor quality work, which may increase waste, negatively impacting performance and profits
- There may be greater costs associated with the acquisition, recruitment and training of new staff (due to increased staff turnover / reduced staff retention) which impacts on profit
- These staff may provide unsatisfactory customer service (reduced performance) leading to increased customer product returns which impacts on revenue (and profit)
- A negative business culture may develop, reducing productivity and ability to respond to change while increasing staff turnover and absenteeism – impacting performance and profit
- There may be increased workers compensation claims due to increased accidents and/or reduced staff well-being and satisfaction, and this will could reduce productivity and profits
- Staff who are unmotivated and dissatisfied are unproductive and this leads to increased costs (less profit) and stress for other workers
- Staff who are less motivated are unlikely to strive to improve their performance, to aspire for promotions, and to contribute new ideas to the business

(d) Evaluate **ONE** impact on managers and **ONE** impact on employees if the number of staff at *Hilltops* is reduced (6 marks)

Marking scheme: 3 marks for impact on managers, 3 marks for impact on employees. To achieve 3 marks for one impact students must include a high level of detail and there must be a clear link to reduced staff numbers.

Impacts on managers:

- Stress in determining whether to have voluntary or involuntary redundancies, which staff should be made redundant

- Stress of finding funds for the entitlements and support of redundant staff
- Reduced productivity of staff once workforce reduced
- Staff turnover may increase, leading to increased time and money spent recruiting and training new employees
- May require additional training to ensure they meet their obligations to employees and are able to adequately support staff
- May need to alter their management style to suit the situation
- Threat of legal action for unfair dismissal if separation is not handled with care
- Increased workload due to handling the separation of employees
- Loss of corporate knowledge, managers must try to prevent losing knowledge which only departing employees have (knowledge which is not written down about how things work; get it down on paper before they leave)
- May lose time from other duties while conducting exit interviews

Impacts on employees:

- Stress of uncertainty and/or being made redundant, or seeing colleagues made redundant
- Stress of having to change, retrain and apply for new positions, particularly if employees were employed for many years with Hilltops
- Decline in mental health
- Decreased job security
- May be able to take advantage of receiving a redundancy and starting a new job
- Reduction in quality of life, financial security, ability to support family
- Increase in work load due to reduced number of staff
- Decreased job satisfaction / motivation / staff morale / productivity due to stress, negative business culture exacerbated by reduction in staff numbers
- Increased absenteeism / staff turnover / grievances (complaints)
- May need to be retrained in order to work more efficiently due to reduced staff numbers / new technology

- (e) Evaluate **ONE** social implication and **ONE** economic implication of allowing staff in any business to work more flexible hours. (6 marks)

Marking scheme: 3 marks for one social implication, 3 for one economic implication. To achieve 3 marks for each implication students must include a high level of detail and there must be a clear link to more flexible hours.

Social implication of more flexible hours:

- Increased and broader participation by workers, especially those with caregiving responsibilities
- More time for families to spend together with children
- Achieve a better work life balance
- Increased quality of life
- Maintain job satisfaction and motivation
- May make child care more accessible (as days where child care is available could be worked, rather than waiting for a spot on a day dictated by work)
- More employment opportunities for those who have stopped looking for work (for potential new recruits interested in flexible working hours)
- More time to volunteer and engage in community service
- Benefits to the local community – a greater number of employees may stay in the local area, don't need to move away to find flexible work arrangements

Economic implication of more flexible hours:

- Increased productivity due to improved morale / motivation / business culture
- More income for those usually excluded from employment (due to inflexible hours)
- More talent retained in the labour force, benefiting the business and the wider community
- Increased participation for workers, especially those with caring responsibilities, allowing promotional paths to be followed

- (f) In order to decrease staff turnover at *Hilltops*, explain **TWO** useful strategies in the recruitment of new employees. (4 marks)

Marking scheme: 2 marks per recruitment strategy (1 for explaining the strategy and 1 for a link to decreasing staff turnover)

Recruitment strategies to assist in decreasing staff turnover:

- Review and refine the selection and recruitment process to ensure that the appropriate staff are hired
- Engage in job analysis to refine job descriptions and/or job specifications to assist in hiring the appropriate staff
- Engage in job design (job enlargement, job enrichment, job rotation) to ensure that positions advertised provide job satisfaction
- Engage an external recruitment agency, with greater expertise in recruitment
- Recruit from universities and schools to hire employees who are the best fit possible
- Selection of new recruits taking in to account organisation fit
- Skills testing as part of the recruitment process
- Bigger interview panels could help prevent implicit bias and assist in hiring a more diverse workforce, which could lead to improved business culture and decreased staff turnover

The strategies below are, according to the HR cycle, development or maintenance strategies – if used by students they should provide strong links to recruitment & retention

- Appropriate induction of new staff
- Assign new recruits a mentor / buddy
- Provide training and development opportunities to staff, including career pathways
- Subsidise external qualifications (Uni, TAFE) to retain staff and develop their skills
- Offer attractive monetary benefits e.g. incremental pay increases related to years of service, bonuses, profit sharing (if/when *Hilltops* financial position improves)
- Offer attractive non-monetary benefits e.g. advancement, recognition, challenging work, access to discounts, car parking, childcare

- (g) Evaluate how the strategies identified in part (f) will improve business performance for *Hilltops* in the short term and the long term. (6 marks)

Marking scheme: 3 marks for short term and 3 marks long term (so for each - 3 ways that strategies will improve business performance named or 1-2 explained – depending on depth of explanation)

Given students varied answers in (f), a flexible approach to marking was taken. For those students who focused on the impact of decreased staff turnover in the short and long term, suggested answers are provided.

Decreased staff turnover in the short term will:

- Reduction in recruitment expenses
- Reduction in training and development for new employees' costs
- Less down time training new employees
- Increased profits, due to reduced expenses

Decreased staff turnover in the long term will:

- Increased motivation, productivity
- Increased customer satisfaction due to improved quality and/or improved customer service
- Improved job satisfaction supporting continual improvement, innovation
- Loyal staff, positive business culture
- Increased profits, due to reduced expenses, increased productivity, increased revenue

Question 11 - Financial Management

- (a) Discuss **TWO** financial issues that can impact *Hilltops* when the gearing ratio is over 100%. (4 marks)

Marking scheme: 2 marks for each issue (1 mark for identifying and 1 mark for a clear explanation of each issue). Unfortunately, no marks were allocated for a definition of gearing ratio or what it meant; which were not required.

TWO financial issues that can impact Hilltops when gearing ratio is over 100%:

- Having large liabilities and a poor reputation for being too highly geared, and being financially unstable / having solvency issues may discourage investors /shareholders. They may not

invest or may stop investing which will result in lower equity available to Hilltops to use in the business.

- When gearing is high, it means that much of the business's revenues need to be spent on interest payments on loans, reducing profits and preventing the business from keeping up with competitors (like Anaconda) and from expansion / growth.
- When gearing is high, there is a significant decrease in cash flow due to the interest payments that must be regularly met which could lead to insufficient funds being available to fund stock purchases (pay back suppliers) and pay for operational costs like employee wages and advertising.
- As gearing increases, financial stability decreases which can lead to increased risk of default on loans, leading to further instability and financial stress on owners / investors.
- When gearing is high, the business will be vulnerable to interest rate rises as it will be harder to meet the increased interest payments and have sufficient funds to pay off the debt in the future.
- When gearing is high, the business may struggle to borrow additional funds from external lenders who would view them as a high risk and this leads to an inability to aggressively advertise to increase sales as was mentioned in the stimulus.
- If gearing is high and the business is struggling to pay their debts, they may get a poor credit rating. This may in turn, lead to suppliers not selling to them anymore if they are unable to show they can repay what is owed, leading to a breakdown in trust of other associated businesses.

(b) Explain **ONE** risk of equity finance and **ONE** risk of debt finance. (4 marks)

Marking scheme: 2 marks per risk (1 mark for identifying each risk, 1 mark for a clear explanation of that risk). The question DID NOT ask for a definition of either equity or debt finance and no marks were allocated to definitions.

Equity finance risks:

- Owners / shareholders expect a relatively high rate of return on their investment and if a business's profits fall, it may be difficult for owners / shareholders to be willing to keep their money in the business, and wait out the difficult patch in the hope of improved returns.

- If a business fails, the external finance providers are often paid first, leaving little or no money left for the owner / shareholder, therefore they lose their investment.
- If equity finance is sourced from additional owners / shareholders, the control of the original owner / shareholder is weakened / lost and the new owners / shareholders are part of the decision-making process which could mean increased disunity if opinions on business direction differ. It could take longer for business proposals to be passed and decrease efficiency.
- Equity finance is reliant on the funds actually being available from either retained profits (if the business is making profits each year) or cash injections by the owner / shareholder – if neither of these are available, or the amounts are small, then it is a risk to rely on that type of finance.
- When only ever relying on equity finance, the business does not establish a credit rating / history that could be problematic in the future if external finance is needed.

Debt finance risks:

- External finance requires payment of interest, in addition to the principal amount, so this means there is another expense item that must be paid for, reducing profits and draining cash flow, which cannot then be used for other things in the business.
- There is increased risk from interest rate hikes, which the business cannot control, reducing profits and draining cash flow.
- Financier has more control of the business and can demand payment; if business is unable to pay, the financier may enter into court proceedings.
- There is increased risk if general economic conditions decline and sales are reduced; the interest expense on debt finance must still be paid, despite the decreased revenues into the business.

(c) Discuss the impacts of poor cash flow on the performance of *Hilltops*. (5 marks)

Marking Scheme:

This question required either a broad range of impacts, or a couple of impacts that were explained in detail in order to attract the full 5 marks.

Many students wrote 'poor cash flow reduces profits' but did not explain how this happens. It was clear from many of the answers that students did not understand, or had not been taught about, the difference between cash and profits. To explain further:

- *Cash can be high in a business, but profits are low or non-existent IF the owner is injecting funds to 'prop' the business up or is somehow able to source external finance.*
- *Profits can be high, but cash can be low (or negative) if many of the sales are on credit and there are issues in collecting the accounts receivables in a timely manner (30 days or less), and/or suppliers are being paid cash.*

Discuss the impacts of poor cash flow on the performance of Hilltops.

- Putting off / delaying upgrades, which will affect business performance, e.g. not upgrading the website and therefore not gaining additional sales from the extra buying option (online) for customers.
- Inability to pay wages and operational expenses which could lead to employees leaving, or being short-staffed which could decrease the quality of customer service and discourage people from shopping at Hilltops.
- The business culture is negatively affected as staff worry about losing their jobs, which leads to decreased productivity and increased staff turnover.
- There is less cash available to make debt finance repayments that may fall due which could lead to the business defaulting on loans and cause a poor reputation.
- There is less cash available to pay dividends to shareholders which may lead to them withdraw their investment (selling shares), further reducing the value of the business which can have a snowball effect.
- The poor cash flow has resulted in a large \$50K overdraft which has further tightened the cash available to Hilltops as they now have to find money to cover the high interest expense of the overdraft facility; making it even harder to make profits of any kind.
- The large \$50K overdraft has increased the total liabilities of the business and put pressure on both the liquidity and solvency of the business, leading to potential problems having cash available to pay suppliers and employees, which causes a poor reputation. More loans may need to be sourced in order to pay these stakeholders, putting additional pressure on the business to finance these additional loans.

- The significant reduction in bank balance from \$20K in 2016 to \$-50K in 2017 means the business is unable to pay current debts as they fall due and making it very difficult to implement any marketing strategies to improve profitability and/or obtain debt or equity finance – they are not an attractive ‘investment’ for either debt or equity financiers.
- Hilltops will stop sponsoring expeditions as they can no longer afford the cash outlay to do so, which will result in lost exposure and further reduce the business’s ability to drive sales up to make profits.

(d) Evaluate **ONE** challenge for shareholders and **ONE** challenge for the financiers (banks) in the restructure of a business. (6 marks)

Marking scheme: 3 marks for each challenge (1 mark for naming the challenge and 2 marks for detailed explanation). *NB: there was unfortunately a problem with this question as the initial question asked for ‘challenges’ but the sub-heading provided stated ‘impact’.*

Impact on / challenge for Shareholders:

- As the business is restructured, the share price may fall due to the uncertainty around the future of the business and it may be difficult to find more investors willing to invest in an unknown / untested venture.
- Decreased share price / business’s value may deter current investors who sell their shares because they do not want to lose any more money. This could lead to a further decrease in share price, continuing to deter any other investors.
- Higher costs in restructuring the business may lead to lower / no dividends being paid out to shareholders who may then be unhappy with their return on investment and sell their shares, further reducing the business’s equity.
- Shareholders may become nervous due to the uncertainty of the business’s future and they will sell their shares or be unwilling to invest additional capital if asked to help with the restructure.
- Shareholders may be asked to invest additional capital to fund the restructure; they will need to decide if it is worth the risk and may be reluctant to do so.

- If shareholders are unwilling to invest their own funds, the business may have to resort to external finance that will incur greater debt and increased interest expense adding additional pressure to the already cash-strapped business and increasing risk on defaulting on loans.

Many students continue to confuse STAKEHOLDERS with SHAREHOLDERS. There were many students who received 0 marks out of 3 because they outlined the impacts/challenges for employees, suppliers, or the community (who are Stakeholders NOT shareholders).

Impact on / challenge for financiers (banks):

- Banks could struggle to get enough collateral to make financing the restructure a worthwhile choice. The current \$-50K bank balance is not a good sign and shows little guarantee to pay back any new loans.
- Banks would need to decide how much (if any) they would lend the business, as the restructure may be a risky investment that does not revitalise the business and, if unsuccessful; the money might never be repaid.
- Financiers need to decide how much to lend, the interest rate to charge (might be very high, given the risk), the frequency of repayments and the length of the loan
- On a positive side: the restructure might be a good way of improving relations with the bank as the restructure, if successful, would make the business more profitable and stable, and mean they can do further 'business' with them in the future.

- (e) Evaluate **ONE** economic implication and **ONE** environmental implication of installing solar panels in the headquarters of *Hilltops*. (6 marks)

Marking scheme: 3 marks for each implication (1 for stating each implication, 2 for a detailed explanation of each implication). Answers could have been from the positive or negative perspective.

ECONOMIC

- Reduction of electricity costs which means lower expenses for the business and therefore the possibility of higher profits in the future (medium to long term) which can be used on expansion / improvements / restructure.
- The cost of the solar panels in the short term is going to severely hamper the business's

cash flow.

- The use of enviro-friendly electricity source could encourage more customers to the business as they view it more favourably because they share environmental sustainability principles, building a positive image of the business.
- The installation of solar panels gave the installers and solar panel manufacturing company a job which meant money was then circulated back into the economy (this was more of an Economics answer, but a popular answer where students discussed the circular flow of money in the economy).
- The business will reduce their need for power from the grid, which could have negative effects on the power company.
- The business could use the electricity generated from the solar panels to feed back into the grid and increase their revenue-making sources.

ENVIRONMENTAL

- Use of renewable energy will decrease demand on the power grid which is powered by non-renewables like coal from coal powered stations like Basslink so this is more enviro-friendly.
- Solar energy has less impact on environment regarding pollution and global warming.
- Reduces the need for finite resources (e.g. coal) which means the environment is being better taken care of.
- Reduces carbon footprint and amount of energy required to run the business, which is more enviro-friendly and a climate change reduction.

(f) Explain **TWO** financial objectives to improve the financial performance of Hilltops. (4 marks)

Marking scheme: 2 marks per objective (1 for naming, 1 for explaining each one). Question 11 was clearly a financial management question; no marks were allocated for marketing or operations objectives.

Any two of the following financial objectives were accepted; Focus on / improve / increase:

- **Profitability** - Look at ways to either increase sales revenue, and other revenues to increase profits, and / or reduce expenses (both COGS e.g. cheaper suppliers AND operational costs) to increase profits

- **Efficiency** - Looks at ways to minimise all costs in the business and manage assets so that maximum profit is achieved with the lowest possible level of assets; monitoring levels of stock and cash flows is essential to improve efficiency.
 - **Growth** - Look at ways to increase the business's size in the longer-term. This may mean Hilltops might close a shop in the short-term in order to consolidate, focus on the restructure in the medium-term and then grow long-term.
 - **Liquidity** - Look at ways to see how short-term debts can be managed and financial commitments (e.g. to suppliers / accounts payables) can be met. Cash will be needed for this, so careful management of cash flows will be essential for Hilltops to achieve this objective.
 - **Solvency** - Look at ways to ensure longer-term debts can be met but also minimised so the business is in a more financially stable position.
- (g) Evaluate how the objectives identified in part (f) will improve the cash flow and financial stability of *Hilltops*. (6 marks)

Marking scheme: 3 marks for discussion of improvements in cash flow and 3 marks for discussion of improvement in financial stability (which must include links to the two objectives identified in part (f)) Students could discuss each objective and how it would improve both, or each issue (cash flow and financial stability) and how the objectives may improve each

This question was clearly focused on how the objectives improved CASH FLOW and FINANCIAL STABILITY. Many students discussed profitability, which was not the intent of the question and therefore marks could not be allocated.

Suggested answers:

- By focusing on PROFITABILITY, sales will increase which (if mostly cash sales and / or a strong credit policy where accounts receivables pay in a timely manner < 30 days) will lead to increased cash flowing into the business. This will mean that Hilltops can meet their own financial commitments to suppliers (of both stock and finance) and ensure they remain financial stable – liquidity will improve, as will solvency.

- By focusing on PROFITABILITY, every line item of expenses (e.g. insurance, electricity, production costs) will be monitored and minimised which will lead to decreased cash flowing out of the business. This will mean that Hilltops can meet their own financial commitments to suppliers (of both stock and finance) and ensure they remain financially stable – liquidity will improve, as will solvency.
- By focusing on EFFICIENCY, all costs will be minimised, particularly in the way products are made / sold and asset-use will be maximised which will lead to decreased costs and increased cash flowing into the business. This will mean that Hilltops can meet their own financial commitments to suppliers (of both stock and finance) and ensure they remain financially stable – liquidity will improve, as will solvency.
- By focusing on GROWTH, the value of the business will improve and profits can increase in the medium to longer-term. Cash flow should improve and this will mean that Hilltops can meet their own financial commitments to suppliers (of both stock and finance) and ensure they remain financially stable – liquidity will improve, as will solvency.
- By focusing on LIQUIDITY, there will be better control over meeting short-term debt with short-term assets. Reducing overdrafts as quickly as possible will reduce interest expenses and improve the amount of cash flowing out of the business. It will also ensure the Current Ratio is more in line with recommended rates of 2:1 and mean Hilltops will be in a better position to meet shorter-term financial obligations like suppliers, creditors and staff. This will ensure they remain financially stable in the short to medium term.
- By focusing on SOLVENCY, the business will try to keep the debt to equity under 100% so the longer-term viability of the business will be secured. Less interest payments being made on debt finance will improve cash flows and fewer liabilities compared to equity will mean the business is more financially stable, not as reliant on external sources of finance and not as susceptible to changes in the broader economic climate.

SECTION C

Question 12

Part A – SWOT Analysis

In the space provided, construct a SWOT table for Tamar Country Gardens. Identify **TWO** strengths, **TWO** weaknesses, **THREE** opportunities and **THREE** threats. (Total 10 marks)

Marking scheme: 1 mark per S, W, O & T. Half a mark only for one word or poorly explained answers.

<p>Strengths</p> <ul style="list-style-type: none"> • Son qualified in horticulture • One of the few garden centres in suburbs • Increased brand recognition through participation in Home & Garden show • Passion for gardening • Open since 2012 • Dedicated garden centre • Destination shopping experience • Education experiences coffee shop • Environmentally friendly • Workshops • Festivals / family markets • Increase in return customers 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Seasonal nature of the business and short growing season • Need to borrow \$40,000 / finance for expansion • Low and decreasing profit margins • Need to diversify • No online presence • Find revenue streams in off season e.g. hosting events, farmers market • Dangers to children e.g. bees, allergies
<p>Opportunities</p> <ul style="list-style-type: none"> • Growth in interest in environmental sustainability / environmental concern • Online ordering of plants / technology facilitating online expansion • Increased interest in festivals • Education about gardening techniques • Due to growth in interest in organic food, growing own vegetables, etc. • Increased interest in Home and Garden shows on T.V. • Focusing to attract children by creating urban farm experience • Hosting farmers market • Sell Christmas trees in December • Increasing tourism (attendance at Lavender festival) 	<p>Threats</p> <ul style="list-style-type: none"> • Declining number of urban gardeners • Adverse weather in past 3 years • Competition from Bunnings • Increasingly competitive market, price competition • Difficulty of borrowing funds during economic downturn • Declining market (urban gardeners) • Economic downturn cuts consumer spending • Increase in interest rates increase expenses, cost of borrowing higher

Part B – Financial Analysis

Marking scheme: 1 mark for showing working out, 1 mark for correct answer. Half mark off for not rounding correctly and/or not writing appropriate format / units.

Writing the formula is not required in student exam answers, but all working should be shown.

Required	<i>Ratio calculation</i>
i. Debtors Collection Period for 2017 in days (2 marks)	$\frac{\text{Average Accounts Receivable} \times 365}{\text{Net Credit Sales}}$ $\frac{10,000 \times 365}{30,000}$ $= 121.67 \text{ days}$
ii. Debt to Equity Ratio (Gearing Ratio) for 2017 (2 marks)	$\frac{\text{Total Liabilities} \times 100}{\text{Total Equity}}$ $\frac{150,000 \times 100}{145,000}$ $= 103.45\%$
iii. Current Ratio for 2017 (2 marks)	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$ $\frac{45,000}{30,000}$ $= 1.5:1$

Marking scheme for iv – vi below: 1 mark for outlining comment, 1 for explaining it

- iv. Make **ONE** comment on the solvency of the business based on the information calculated in parts i to iii. (2 marks)
- With a gearing ratio of 103.45% more of the business is owed to outside parties than the owners, as we don't know industry averages or changes over time this is hard to evaluate

- For every \$1 of equity (internal finance) the business has \$1.03 of debt (external finance)
 - Slightly above acceptable level of 100%, this means that the ability to pay long term debts is more risky
- v. Make **ONE** comment on the liquidity of the business based on the information calculated in parts i to iii. (2 marks)
- For every dollar of current liabilities, the business has \$1.50 in current assets. This could result in problems if stock / inventory and/or accounts receivable are not able to be turned in to cash quickly enough.
 - Liquidity to pay short-term commitments is 1.5 times the liabilities. This is below the acceptable level of 2:1 indicating that liquidity is not at a comfortable level.
- vi. Make **ONE** comment on the efficiency of the business based on the information calculated in parts i to iii. (2 marks)
- The business takes too long to chase up its debts, with a debtors collection period of 121.67 days. This will affect cash flow and/or the ability to pay accounts payable.
 - Debtors' collection period is 121.67 days. If the businesses credit terms are 30 days (or even 60 or 90 days) then efficiency is very poor. This may be due to poor debt collection procedures e.g. invoices are not sent on time, late payments are not followed up, reminders not sent.
- vii. Using the table below, draw **ONE** conclusion from comparing the Rate of Return on Owners Equity to the industry average. (2 marks)

Marking scheme: 1 mark for outlining conclusion, 1 for explaining it

- Increased sales may lead to a higher ROROE in 2018.
- Expected ROROE in 2018 is higher than industry average. Better cost control and higher margins has led to a higher rate of return.
- In 2017 the rate of return on owners' equity (ROROE) was negative, far worse than the industry average but if 2018 estimates are correct, the business will provide a much higher return than industry averages.

- ROROE is expected to increase by 24% in the year 2018, at which time (if correct) it will be 6% higher than the industry average and will mean that for every \$1 invested, 12 cents is returned as profit.

viii. Should Tamar Country Gardens borrow \$40 000 to finance the development into online ordering and offering gardening workshops in 2018? Justify your recommendation. (3 marks)

Marking scheme: 1 mark for recommendation, 2 marks to justify recommendation

N.B. It was not completely clear in the question whether the bank loan was already factored in to the financial statements provided (there is already a \$40,000 bank loan included in the 2018 Expected Cash budget information), or whether this \$40,000 was an additional bank loan.

No, they should not loan the \$40,000:

- Increasing borrowings by \$40,000 will increase Gearing Ratio in 2018, increasing risk and decreasing solvency.
- They could use equity funding to fund the development.
- It would be wise to wait for more cash to be generated through profits, so that the development could be funded with retained profit.
- They should explore the possibility of selling an asset to fund the development.
- Interest payments will add to the cash payments in the cash budget.
- They could use \$20,000 retained profit and borrow a reduced amount of \$20,000.

Yes, they should borrow the \$40,000:

- Due to unaffordable seasonal revenues, borrowing the money will help with cash flow as well as the funding of the development.

ix. By referring to the cash budget, justify **ONE** recommendation to improve cash flow for *Tamar Country Gardens* in 2018. (3 marks)

Marking scheme: 1 mark for recommendation, 2 marks to justify recommendation

To improve cash flow for Tamar Country Gardens in 2018:

- Increase marketing to increase sales volume

- Increase margins by cutting costs or increasing prices, to increase sales revenue
- Do not continue to purchase large assets in 2018
- Control the costs of Administration and wages
- Use a bank loan to increase funds available
- Look at automation as a way of cutting administrative and wage costs
- Look at sub-contracting or increasing productivity to help control wage costs
- Revisit any plans for further expansion / developments until cash flow improves (the business may have expanded too quickly)

Part C – Break - Even Analysis

- x. If Tamar Country Gardens decides to charge \$150, how many people need to attend the class to break-even? (3 marks)

Marking scheme: 1 mark for categorising fixed and variable costs correctly, 1 mark for showing correct working and 1 mark for a correct answer with units. Half marks deducted for mistakes in the working shown, leaving off units or incorrect rounding.

Due to a common misunderstanding with this question, there was some flexibility in this marking scheme, with answers marked on merit and part marks allocated where appropriate.

Fixed costs:

- The instructor will be paid \$50 per hour, & sessions are two hours long
- Overhead costs like electricity and other admin costs are estimated at \$400

Variable costs:

- Each participant will use up to \$100 worth of materials for the whole course

Part of the scenario was unclear to students:

Each workshop takes four weeks for 2 hours per session (the number of workshops was not made clear)

The majority of students took the question in two ways:

Using the formula - $BE = \frac{\text{total fixed costs}}{\text{selling price per unit} - \text{variable costs}}$

Suggested Answer 1

$$BE = \frac{\$400 + \$400 (4 \text{ weeks} * 2 \text{ hours} * \$50 \text{ per hour})}{\$150 - \$100}$$

$$BE = \frac{\$800}{\$50}$$

$$BE = 16 \text{ people}$$

OR

Suggested Answer 2

$$BE = \frac{\$400 + \$100 (2 \text{ hours} * \$50 \text{ per hour})}{\$150 - \$100}$$

$$BE = \frac{\$500}{\$50}$$

$$BE = 10 \text{ people}$$

Marks were given for other options also.

- xi. *Tamar Country Gardens* feels that it should only charge \$120. What are the maximum variable costs to break even if 20 participants take the class? (3 marks)

Marking scheme: Full marks required correct working, a correct answer and the use of a dollar sign. A half mark was deducted for no dollar (\$) sign and for errors throughout the algebra / working shown.

Marks were given for carrying any mistakes in (x) through. For example, if students in part (x) had the wrong amount for the fixed costs and they carried this amount through, full marks could be attained if the manipulation of the formula was correct.

Students needed to be careful to incorporate the information in this question, e.g. the new selling price is now \$120 and the number of participants needed to break even is now 20.

The most common answers in part (x) were:

Suggested Answer 1

Using algebra

$$20 = 800 / (120 - \text{Variable Costs})$$

$$20(120 - \text{Variable Costs}) = 800$$

$$2400 - 20VC = 800$$

$$-20VC = -1600$$

$$VC = \$80$$

Variable costs could be a maximum of \$80 to break even

OR

Using a formula

$$\text{Variable cost per unit} = \frac{(\text{Selling price} \times \text{units sold}) - \text{fixed costs}}{\text{units sold}}$$

$$= \frac{(120 \times 20) - 800}{20}$$

$$= \frac{2400 - 800}{20}$$

$$= \frac{1600}{20}$$

$$\text{VC per unit} = \$80$$

Suggested Answer 2

Using algebra

$$20 = 500(120 - \text{Variable Costs})$$

$$20(120 - \text{Variable Costs}) = 500$$

$$2400 - 20VC = 500$$

$$-20VC = -1900$$

$$VC = \$95$$

Variable costs could be a maximum of \$95 to break even

OR

Using a formula

Variable cost per unit = $\frac{(\text{Selling price} \times \text{units sold}) - \text{fixed costs}}{\text{units sold}}$

$$= \frac{(120 \times 20) - 500}{20}$$

$$= \frac{2400 - 500}{20}$$

$$= \frac{1900}{20}$$

VC per unit = \$95

xii. Present **ONE** conclusion about the analysis in part (xi). (2 marks)

Marking scheme: 1 mark for stating conclusion, 1 for explaining it. Again, marks were given for mistakes carried through.

Suggested answers

- Variable costs could be a maximum of \$80 to cover costs for 20 participants if the price charged is \$120 OR Variable costs could be a maximum of \$95 to cover costs for 20 participants if the price charged is \$120
- Variable cost in part (x) was \$100 but in part (ix) the calculation (for SP of \$120 and 20 participants) demonstrated that to break even a lower variable cost will be required (\$20 less if \$80, \$5 less if \$95)
- The variable costs calculated in (xi) only making it possible to break even, and not produce any profit. To produce a profit the selling price may need to be increased, variable and / or fixed costs lowered and / or participants (class size) increased.

xiii. Describe **ONE** measure that *Tamar Country Gardens* could take if it wants to limit the class size to 10 participants, but not lose any money. (2 marks)

Marking scheme: 1 mark for stating the measure, 1 mark for the explanation / how it would work.

Measures may include but are not limited to:

- Reduce the variable costs, e.g. lower the cost of materials used
- Reduce overhead costs, such as electricity and admin
- Increase the selling price
- Increase the number of lessons
- Ask participants to provide some or all of the materials to help lower variable costs, or introduce an additional 'cost of materials' fee

Part D – Feasibility Study

- i. In recent years, seasonal plant sales have plateaued and have started to decline.

Describe **ONE** marketing goal and **ONE** operational goal that could be adopted to extend the product life cycle of the business's seasonal plants. (4 marks)

Marking scheme: 2 marks per goal, 1 mark for describing each goal, 1 mark for attempts to link the goal to extending the product life cycle of seasonal plants

A few suggested answers, requiring links to seasonal plants and/or product life cycle (many other goals were acceptable, SMART goals provide a better level of detail)

Marketing Goal:

- Increase sales volume or revenue by 5% in 1 year
- Increase market share by 10% in 18 months
- Expand product range to increase sales by 15% in 3 years
- Maximise customer service, increasing repeat customers by 5% in 6 months

Operational Goal:

- Establish quality standards and have 95% of output meet the standard in 6 months
- Improve quality of plants, reducing customer product returns by 20% in 1 year
- Reduce costs of operations / production by 10% in 9 months
- Increase efficiency of production process (speed, reduction of waste, quality output) by 15% in 2 years
- Review and respond to changes in consumer demand and available inputs, in order to maintain sales over time

Discuss **ONE** marketing strategy that could be adopted to take advantage of **ONE** opportunity identified in the SWOT analysis on page 3. (4 marks)

Marking scheme: 2 marks for explaining strategy, 2 marks to explain how it would take advantage of an Opportunity

Strategies may include but are not limited to:

- Targeting a new market segment
- Product positioning, expand and vary product offerings
- Promotional strategies e.g. generate publicity (news, social media, word of mouth) with environmental education sessions
- Pricing strategies
- Sell online (or other place strategy)

iii. Discuss **ONE** operational strategy to overcome obstacles of **ONE** threat identified in the SWOT analysis on page 3. (4 marks)

Marking scheme: 2 marks for explaining strategy, 2 marks to explain how it would overcome a Threat

Strategies may include but are not limited to:

- Changes in production to refine product
- Use of technology to decrease costs of production and sell online
- Changing to cheaper suppliers to decrease input costs
- Outsourcing aspects of production
- Rationalising suppliers to reduce costs
- Quality management approaches
- Establish a competitive advantage via product differentiation e.g. high quality plants, better local knowledge, qualified staff (cost leadership problematic given competition from Bunnings)

iv. Analyse the impacts of Tamar Country Gardens extending its offerings of extra options and services on its customers and employees. (6 marks)

Marking scheme: 3 marks for impacts on customers, 3 marks for impacts on employees. Two points for each explained for 1.5 marks each (4 × 1.5), or three points outlined for each (3 × 2) could make up a full mark response.

Customers:

- Provide the customer with a wider range of products / more choice
- Product differentiation would appeal to customers
- More fun for the children
- Education in gardening techniques
- More relaxing, and a more enjoyable experience
- May spend more time and money there per visit (lots to do), more likely to return

Employees:

- Increased workload on employees, new / expanded duties
 - May result in improved staff morale or decreased staff morale
 - May motivate employees further and increase their productivity and fulfilment
 - More knowledge required to offer more goods and services
 - More training to run educational classes
 - All year round work
- v. Describe **TWO** recommendations to improve business performance by extending the product life cycle of their plants in terms of: (6 marks)

Marking scheme: 3 marks per recommendation, 1 for stating each recommendation, 1 for explaining each one, and a final mark for each recommendation for attempts to link to extending the product life cycle. Each recommendation needed to be in line with requirements around product and place respectively.

Many students did not understand the concept of positioning. *Positioning is a technique used by marketers to position a product, usually in relation to product quality and price, in the mind of consumers. Effective positioning establishes a favourable image in consumers' minds, a perception (true or not) of the product's quality or price in relation to alternative, competing products in the market (Hickey et al, 2017).*

Recommendation 1 – changing product offers and positioning

- Change product offerings to rejuvenate them by adding other services or goods, increasing the amount, changing the wrapping and packaging, etc.
- Product differentiation – changes to the packaging or labelling, offering top quality service, greater convenience, more features, environmentally friendly products, better value for money. (Developing and promoting differences between the business's goods or services and those of its competitors).
- Concentrate on the brand to emphasise a family experience and learning new ways to garden
- Create a more recognisable logo
- Reposition some products to other target markets – e.g. families, hobby farmers
- Position the business as the local experts, the garden centre that 'true gardeners' turn to, particularly if they can stock plants that are going to be sold and planted all year round.

Recommendation 2 – place and distribution

- Changing location or opening up a new store in another suburb
 - Selling goods at another store
 - Selling goods online
 - May need a larger premises or different environments for plants, particularly if summer plants may be damaged by frost (e.g. greenhouses)
 - Distribution directly to the consumer (via online ordering) could be difficult with pot plants, so possibly this should be focused on seeds and accessories
 - Online ordering of plants could be limited to local customers, and deliveries made by the business itself (or pick up offered)
- vi. Analyse **ONE** social implication and **ONE** ethical implication of offering activities aimed at attracting children to visit the store. (6 marks)

Marking scheme: 3 marks for each implication, 1 for naming, 2 for explaining (with links to attracting children to the store)

Social implication:

- More community involvement
- More family involvement. Good for parents and children to have a day out together
- Teaching younger children about sustainable gardening practices
- Teaching children and adults about environmentally sustainable products
- Developing a love for gardening, etc.
- Gets families outdoors – promotes a healthy lifestyle
- Greater awareness of food production, the role of the environment and need to manage waste such as compost

Ethical implication:

- Unethical aspects of marketing to children – e.g. Creation of needs (encouraging materialism). Use of children to draw in parents to purchase products
- The need for Tamar Country Gardens to care about safety, especially in relation to children (allergies, bees, animal bites, etc.)
- Ethical treatment of animals (adequate care of each animal, ensuring children are gentle with them / animals are not constantly harassed)
- Increased exercise / outdoor activity for children which promotes a healthy lifestyle, love of nature / environment
- Increased awareness of sustainable practices, which means that parents and children when they grow up, may conserve energy and resources
- Failure to be ethical (in any of the above ways) could led to negative publicity, possible legal costs and loss of morale for staff

Question 13

Part A – SWOT Analysis

- i. In the space provided, construct a SWOT table for Huon Garden Centre. Identify **THREE** strengths, **THREE** weaknesses, **TWO** opportunities and **TWO** threats. (Total 10 marks)

Marking scheme: 1 mark per S, W, O & T. Half a mark only for one word or poorly explained answers.

<p>Strengths</p> <ul style="list-style-type: none"> • Community leaders are involved with / support the business proposal • A strong mission statement has been developed • Aim is to create a sustainable business with strong social objectives • Business seeks to provide jobs and training for young people from the local community who are unable to find work in a high unemployment area • Business is seeking to foster care for the environment throughout the local community • The business will be created by community leaders who are experienced and know the area well • Excellent location on the banks of the Huon River (if secured) • Recognition that a good business plan is required 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Business plan not yet finalised • Lack of equity (internal) funding with all funding to be sought from government grants, suppliers and banks • Requiring a discount on rent at a site that is in popular demand • Expensive set up costs are anticipated of \$2m, plus building and equipment expected costs of \$1.4m. • May lead to pollution of the river and surrounding areas if set-up on the river bank • Staffing and managers not yet identified • High level of risk (new idea), may fail • Inexperienced trainees may not be suited to or enthusiastic about this type of work • Lack of already trained staff
<p>Opportunities</p> <ul style="list-style-type: none"> • Council to be approached to provide low cost rent based on social objectives, but this not yet approved • More jobs and income for locals which will have economic benefits for the community overall (if business succeeds) • To provide life skills for young people who currently are unemployed (less poverty, reliance on social welfare) • Expansion in to education programs (e.g. vocational education, training centre) • Partnerships with other businesses – offering trainees additional work experience, long term employment 	<p>Threats</p> <ul style="list-style-type: none"> • Competition for the site / Tourism based businesses that want to use the proposed site; may lose site to them, or may reduce likelihood of rent reduction • Funds may not be forthcoming from state/federal government • Local community sentiment toward the project changes / loss of community support

Part B – Financial Analysis

Marking scheme: 1 mark for showing working out, 1 mark for correct answer. Half mark off for not rounding correctly and/or not writing appropriate format (%)

Writing the formula is not required in student exam answers, but all working should be shown.

There was a problem in the 'Extra information' for this question, which said that ratios should be calculated from the information in a balance sheet on page 18. There was no balance sheet, just a Cash budget and Projected Income statement. Students should have used the Average Owners Equity figure provided.

Required	Ratio calculation
i. Rate of return on Owners Equity in 2018 (2 marks)	$\frac{\text{Net Profit}}{\text{Average Owner's Equity}} \times 100$ $\frac{6,000}{1,000,000} \times 100$ $= 0.6\%$
ii. Gross Profit Ratio for 2018 (2 marks)	$\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$ $\frac{120,000}{220,000} \times 100$ $= 54.55\%$
iii. Net Profit Ratio for 2018 (2 marks)	$\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$ $\frac{6,000}{220,000} \times 100$ $= 2.73\%$

- iv. Make **TWO** comments on the profitability of the proposed business based on the information calculated in parts i to iii. (4 marks)

Marking scheme: 2 marks for each comment, 1 for stating, 1 for explaining

Suggested answers:

- For every dollar of sales, the business gets to keep 54.55 cents to cover expenses (after COGS are paid) and 2.73 cents are kept as profit
 - GPR is quite high and is reasonable
 - The net profit margin is very low and the business could easily run at a loss if sales are a bit lower or expenses are higher than expected
 - Given that GPR is reasonable but NPR is very low, the business needs to look at its expenses, and lower them, if it wishes to be profitable
 - The ROROE is very low, and does not compare well with options like a basic bank account
 - The NPR and ROROE are both low, the business does not look profitable but could break even; is this acceptable given it is a community based project? (is the business not-for-profit?)
- v. Using the table below, draw **ONE** conclusion from comparing the liquidity of *Huon Garden Centre* with the industry average. (2 marks)

Marking scheme: 1 mark for stating the conclusion, 1 for explaining

Suggested answers:

- Liquidity is expected to improve, but will still be below the desirable level of 2:1, and below the industry average of 2.2:1
- The expected poor liquidity may be due to the business getting established, or a result of the inefficient collection of debts (high debtors collection period)
- Huon Garden Centre will struggle to pay bills in 2018 and 2019 as the ratio of current assets to current liabilities starts off at 1:1 but this improves to 1.5:1 in 2019

- vi. Using the table above, draw **ONE** conclusion from comparing the efficiency of Huon Garden Centre to the industry average. (2 marks)

Marking scheme: 1 mark for stating the conclusion, 1 for explaining

Suggested answers:

- Efficiency is becoming better but is still below the industry average
 - The debtors collection period is expected to improve, which means that the business would receive payment from debtors (accounts receivable) more quickly
 - The debtors collection period is expected to improve by 10 days but this would still be 15 days less efficient than the industry average
 - The industry average takes much less time to get payment from credit sales than Huon Garden centre, making it harder for them to turn accounts receivable into cash
- vii. Justify **TWO** recommendations explaining how to improve cash flow in 2019. (6 marks)

Marking scheme: 3 marks per recommendation, 1 for stating, 2 for explain it and how it would improve cash flow.

Recommendations to improve cash flow

- The business could send reminders and make calls to those with overdue accounts to encourage them to pay their bills. They could explain that they have high costs and are contributing to society, and need access to cash in order to continue serving the community
- The anticipated wages bill for 2019 (\$320,000) is high given expected cash sales receipts is only \$260,000. This means the business relies on outside sources for funding to have positive cash flow. The business needs to keep wages costs lower until sales have increased so that they are paying ongoing costs with ongoing revenue.
- Increase sales revenue (prices or volume)
- Find cheaper suppliers
- Decrease overheads, especially wage costs
- Don't purchase so many assets at once, e.g. plan to purchase assets over a 3 year period

Part C – Break - Even Analysis

- viii. If Huon Garden Centre decides to charge \$10 per plant, then how many plants does it need to sell per year to break even? (3 marks)

Marking scheme: 1 mark for categorising fixed and variable costs correctly, 1 mark for showing correct working and 1 mark for a correct answer with units. Half marks deducted for mistakes in the working shown, leaving off units or incorrect rounding.

Due to a common misunderstanding with the variable costs in this question, there was some flexibility in this marking scheme, with answers marked on merit and part marks allocated where appropriate.

Fixed costs = \$240,000

Variable costs

- Cost of seedling + Cost of watering
- Cost of seedling = \$1
- Cost of watering = 5 weeks × 7 days × \$20 per hour (1 hour per day) = \$700 for 700 seedlings, therefore unit cost of watering is \$1 per seedling
- Total variable costs \$1 + \$1 = \$2

The cost of watering was overly complicated, and many students found instructions around this unclear, leading to variations in the calculation of variable costs.

$$BE = \frac{240,000}{(10-2)}$$

$$= 30,000 \text{ seedlings}$$

- ix. Huon Garden Centre feels that it can only produce 20 000 plants per year. What price will need to be charged per plant to cover all costs for only 20 000 plants? (3 marks)

Marking scheme: Full marks were achieved with correct working, a correct answer and the use of a dollar sign. A half mark was deducted for no dollar (\$) sign and for errors throughout the algebra.

Marks were given for carrying any mistakes in (vii) through. For example, if students in part vii had the wrong amount for the variable costs and they carried this amount through; full marks could be attained if the manipulation of the formula was correct.

Using algebra

$$20,000 = \frac{240,000}{(SP-2)}$$

$$20,000 \times SP - 40,000 = 240,000$$

$$20,000 \times SP = 280,000$$

$$SP = \frac{280,000}{20,000}$$

$$SP = \$14$$

OR

Using a formula

$$\text{Selling price} = \frac{\text{Fixed costs} + \text{Profit} + (\text{variable costs} \times \text{units sold})}{\text{units sold}}$$

$$= \frac{240,000 + 0 + (2 \times 20,000)}{20,000}$$

$$= \frac{280,000}{20,000}$$

$$SP = \$14$$

- x. Present **ONE** conclusion about the analysis in part (ix). (2 marks)

Marking scheme: 1 mark for naming conclusion, 1 mark for explaining

- The price that will need to be charged to break even is \$14 and not \$10 at a production level of 20,000 plants
- At an output level of 20,000 plants and a SP of \$14 the business will only break even, they will not make a profit; costs will need to be lowered or SP increased in order to make a profit
- Fixed costs are too high at \$240,000 and will need to be lowered if they want to keep the price at \$10
- The business should ensure that all the fixed costs in the analysis are applicable to the seedlings, only the costs associated with the seedlings should be included in this break even analysis

- xi. Describe ONE measure that *Huon Garden Centre* could take if it wanted to keep the sale price per plant at \$10. (2 marks)

Marking scheme: 1 mark for naming measure, 1 mark for explaining

- Fixed costs will need to be lowered if they want to keep the price at \$10
- Try to decrease variable costs by reducing labour costs (e.g. automatic watering) or using cheaper pots and soil for each plant
- Utilise volunteers or trainees to reduce wages costs associated with watering the seedlings
- Increase output and sales volume of plants significantly (to assist in covering fixed costs)

Part D – Feasibility Study

- i. Describe ONE marketing goal and ONE financial goal that will contribute to the success of the business. (4 marks)

Marking scheme: 2 marks per goal, 1 mark for naming, 1 for explaining each.

A few suggested answers (many other goals were acceptable, SMART goals provide a better level of detail).

Marketing Goal

- Increases sales (by volume or revenue) by 10% in 12 months
- Increase market share by 3% in 1 year
- Develop strategies to target a new market over the next 6 months
- Increase brand recognition by 25% in 2 years
- Expand product range / diversify products offered over the next 3 years
- Maximise customer service to increase customer satisfaction by 20% in 3 months
- Appeal to a broad range of customers with a diverse product range providing sustainable revenue

Financial Goal

- Increase profit by 5% in 6 months
- Lower expenses by 10% in 1 year

- Collect accounts receivable more efficiently; reducing the debtors collection period ratio by 5 days in 12 months
 - Improve cash flow management through the use of a cash budget; keeping negative budget variances below 10% over the next 12 months
 - Maintain financial stability (solvency) by maintaining gearing ratio below 100%
 - Source equity funding to reduce reliance on government, and assist with cash flow
- ii. Discuss **ONE** finance strategy to take advantage of **ONE** strength or opportunity identified in the SWOT analysis on page 17. (4 marks)

Marking scheme: 2 marks for explaining strategy, 2 marks to explain how it would take advantage of the Strength or Opportunity.

Finance strategies to take advantage of a Strength or Opportunity

- Control cost of goods sold and expenses like wages and admin costs, in order to manage finances responsibly (demonstrate that government funding will be well spent)
 - Do not commit to so much debt, leaving room for future investment in a strength / opportunity
 - Develop a financial plan (as part of the business plan), to demonstrate to potential investors that the business will not always rely on government funding
 - Source finance through the community leaders and crowd sourcing / funding to improve ability to take advantage of strength / opportunity
- iii. Discuss **ONE** human resource management strategy to overcome obstacles of **ONE** threat or weakness identified in the SWOT analysis on page 17. (4 marks)

Marking scheme: 2 marks for explaining strategy, 2 marks to explain how it would take advantage of the Threat or Weakness.

Human Resource Management strategies to take advantage of a Threat or Weakness

- Provide training and development
- Provide a safe workplace, with a positive business culture
- Better selection and recruitment processes to employ more qualified and suitable staff members

- Engage in reward programs to motivate staff using non-monetary and monetary rewards
 - Utilise an external recruitment agency to find appropriate staff
- iv. Analyse the impacts of *Huon Garden Centre* offering courses to lower skilled and vulnerable youths in the community. (6 marks)

Marking scheme: 3 marks for impacts on community, 3 marks for impacts on managers.

Two points for each explained for 1.5 marks each (4 × 1.5), or three points outlined for each (3 × 2) could make up a full mark response.

Impacts on the Community

- Increase life skills, life satisfaction and well-being
- Provide jobs in the community
- Youth unemployment may fall
- Provide impoverished, inexperienced and vulnerable people with opportunities
- Reduce crime and disaffection in the community
- Young people will improve their skills and may start businesses of their own, further improving opportunities in the Huon Valley

Impacts on the Managers

- Need highly skilled employees to assist with inexperienced staff
- Using younger and more vulnerable employees will mean lower productivity in the beginning
- Given the number of inexperienced staff Managers may need to set well understood rules and guidelines to make sure workers show up on time and treat each other, and customers, with respect
- Need to compete with commercial businesses like Bunnings
- Harder to employ professional staff in regional areas (fewer applicants, reduced choice of candidates)

- v. Describe **TWO** recommendations to improve business performance in the establishment phase of the product life cycle of the business's plants in terms of: (6 marks)

Marking scheme: 3 marks per recommendation, 1 for stating each recommendation, 1 for explaining each one, and a final mark for each recommendation for a links to extending the product life cycle. Each recommendation needed to be in line with requirements around establishing low cost promotions and pricing method and a pricing strategy respectively.

Recommendation 1 - establishing low cost promotions

- Use cheaper promotional methods like letterbox drops, flyers, community noticeboards and free community newsletters / newspapers, etc.
- Use a social media platform to communicate and publicise the business within the community
- Take advantage of social objectives to get as much free press as possible (local radio, newspapers and TV)
- Canvas local 'celebrities' and influencers and ask them to publicise the business and its social objectives for free

Recommendation 2 - pricing method and a pricing strategy

- A cost based (mark-up) pricing method to cover costs & expenses, and a market based pricing strategy would be the most suitable methods to use
- Strategies could be price penetration to increase market share, loss leader to get people in the door, or price points (in line with competition and demand) to limit the range of prices and make it easier for customers to find what they need, while encouraging them to trade up to a more expensive product
- Premium pricing could also be used as a pricing strategy due to the great location, admirable social objective and high quality goods / service

- vi. Analyse **ONE** economic implication and **ONE** legal or political implication of relying largely on government funding to establish the business. (6 marks)

Marking scheme: 3 marks for each implication, 1 for naming, 2 for explaining (with links to attracting children to the store).

Economic implication

- The business may not get the funding and may therefore not open, with no economic benefit for the community in this case
- Business may receive initial funding, with future government funding contingent on achieving objectives around the provision of employment and training
- To provide jobs to poorer people and allow them to stay in the local community
- Provides economic security and more satisfaction
- Extra income in the community, may lead to more spending in local businesses / stimulate local economic activity

Legal/Political implication

- May need the partnership of three levels of government, which may not be easy
- The ongoing funding of the business may be contingent on the political success of the government that provided the initial funding – would the business be viable after a change of government?
- Governments may only provide a proportion of the amount the business needs
- Government funding may lead to increased scrutiny, and the need for stringent compliance with laws and regulations
- The government may face criticism if the community feel that tax-payers money is not being well spent / that the Huon Garden Centre is not an appropriate investment

Useful additional break-even formula

The below break-even formulae, which are **not** on the TASC formula sheet, are useful in the teaching and learning of break-even. They provide a simple alternative to algebra, and use 'break-even logic'.

Students wishing to use these in the examination would need to commit them to memory.

$$1. \text{ Break-even point for a desired level of profit} = \frac{\text{Total fixed costs} + \text{profit}}{\text{Selling price} - \text{variable costs}}$$

(Expressed in whole units)

$$2. \text{ Profit} = (\text{selling price} \times \text{units sold}) - (\text{variable costs} \times \text{units sold}) - \text{fixed costs}$$

(Expressed in dollars, calculated to the nearest two decimal places)

$$3. \text{ Selling price} = \frac{\text{Fixed costs} + \text{Profit} + (\text{variable costs} \times \text{units sold})}{\text{units sold}}$$

(Expressed in dollars, calculated to the nearest two decimal places)

$$4. \text{ Variable cost per unit} = \frac{(\text{Selling price} \times \text{units sold}) - \text{fixed costs}}{\text{units sold}}$$

(Expressed in dollars, calculated to the nearest two decimal places)

References

Chapman, S., Gallina, R. & Devenish, N. (2019) *Jacaranda Business Studies in Action Preliminary Course*, 5th edn, John Wiley & Sons Australia Ltd, Milton, Qld.

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Hickey, M., Nader, T. & Williams, T. (2017) *Cambridge Year 12 (HSC) Business Studies*, 4th edn, Cambridge University Press, Port Melbourne, Vic.