ASSESSMENT REPORT

BST315116 BUSINESS STUDIES

This report is the product of many hours of work by a cross-sectoral statewide team of Business Studies educators. All of the input provided to assist students and teachers in their understanding of the course content and the external examination is greatly appreciated.

SECTION A

General comments
Common themes in the feedback from examination markers of section A include the below key considerations for students:

- Reading the question carefully and structuring a full mark response i.e. answering all parts of the question
- Utilising rich business terminology
- Providing relevant examples which you explain and link to your discussion
- Knowing the course content
- Providing enough detail: ½ to ¾ page responses for each question
- Use of paragraphs and sub headings

A useful exercise when revising is to use past exams and assessment reports, and the marking schemes outlined in these, to practice structuring responses; including the appropriate level of detail and using examples as part of your answer. Swapping answers with an objective partner who then ‘marks’ your response against the marking scheme is helpful in developing business communication skills, particularly for criterion 1 in Section A, and the level of detail a Section A response requires.

PART 1: The Business Environment

Question 1
Most students did not answer this question, possibly seeing the discussion of characteristics of an entrepreneur (Question 2) as easier than explaining the importance ‘to society in terms of the economic role and social role of business’.

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, doing well to discuss how these factors stimulate the economy overall and help small communities thrive. For the social contributions, many student responses lacked detail and only discussed local sponsorship. Stronger responses outlined ways in which businesses could have a positive impact within their local community.

Question 2
Many students failed to provide a definition of an entrepreneur, instead explaining what an entrepreneur does.

The majority of students found this question straightforward to answer. Some students did not describe the attributes/characteristics but rather listed them—to earn full marks candidates needed to provide
thorough, succinct and precise responses. Better answers then explained how the two chosen attributes/characteristics impacted on business success by identifying the positive outcomes in a business situation. Better answers also provided examples to help illustrate their points.

**Question 3**
Better answers focused on the elements of business culture (values, symbols, rituals and heroes) and gave specific examples of how this would operate in real life.

Business culture can have either positive or negative influences on business achievement and better answers again gave specific examples of companies (such as Google or Levi Strauss) that foster and embrace a flexible and productive culture.

Answers would have been enhanced by stressing that business culture can be formal (rules and regulations set out by management) or informal (the expected norm of behaviour amongst peers). Improvements could also have been made by a more prominent reference to the essential elements of business culture—values, symbols, rituals and heroes, with examples being given. Very few students did this.

**Question 4**
Better definitions provided a more detailed, textbook style response, incorporating business terms into their answer. Weaker responses stated that CSR was simply “giving back to the community”.

Better answers also mentioned the concept of the triple bottom line: financial, social and environmental responsibilities and goals. CSR also involves the business going beyond what is legally required of them (WH&TS, Fair Work, Environmental Protection, ACCC, etc.) in order to be regarded as good corporate citizens.

Better answers discussed the likelihood that there may be a cost, and lower profits, in the short term when meeting corporate social responsibility obligations. This is due to the business resources dedicated to improved social and environmental outcomes. Students should provide examples to display their understanding of this cause and effect.

Students, overall, did not take advantage of the range of both positive and negative CSR examples. Negative examples, as evident in the Banking Royal Commission and the underpayment of wages in the hospitality industry could have been included—as could positive examples, like Levis’ changed operations to use recycled materials and reduce water usage.

**PART 2: Operations Management**

**Question 5**
Overall this part was answered well with most students understanding that product differentiation involves a business somehow making their good or service different.

The marking scheme for this question was divided into: how to differentiate a product (4 marks) and what advantage there were in doing so for the business (4 marks). Candidates were strong on how to differentiate and provided an example, but lacked detail on the benefits to the business.

A number of candidates mentioned target marketing, cost leadership and other pricing strategies, which did not accrue any marks.

**Question 6**
Overall, students correctly interpreted that “just in time processing” was the same as “just in time inventory control”.

Good responses used examples to help explain their answer. Some students also integrated other aspects of inventory control, such as FIFO, successfully into their answer. Good answers also made the connection between JIT and the provision of positive customer service, building loyalty and reliability of service in order to meet short term and long term financial goals.

Weaker responses focussed on the benefits of JIT as reducing waste rather than looking at storage, dispatching, ordering, flexibility and efficiency. The discussion of waste in student responses was often insufficient or not strong enough, frequently focussing on unsold vegetables.

**Question 7**

Not many students chose to answer this question. The majority of those that did were able to give an adequate definition of TQM. Many students were able to identify and explain the advantages of Total Quality Management.

Better responses had relevant examples and in-depth explanations of the advantages of TQM, while satisfactory responses were only able to identify the advantages. Students had difficulty with comparing TQM to another form of quality management; some students listed the definitions of some or all of the three types of Quality Management as their comparison without identifying and explaining the advantages of the other form of Quality Management.

**Question 8**

This was a popular question and most students were able to mention that outsourcing involves the contracting out of non-core business activity to other businesses either domestically or globally, with business structures changing to benefit from lower costs and greater efficiency. Weaker responses said that companies outsourced their manufacturing and raw materials to cheaper suppliers in Asia. Better answers started with a strong definition, added an example and then used separate paragraphs for One Benefit and One Issue.

To do well, responses needed to show a deeper understanding that outsourcing (beyond simply outsourcing manufacturing) could include areas such as Human Resources, Administrative work and Information Technology (IT).

Better answers included examples and used appropriate business terminology.

**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. holiday accommodation) 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 as possible, and providing links between business concepts. 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, ‘position’, marketing objectives and Key Performance Indicators.
• Students should read questions carefully to take note of the requirements. 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. Q9 is about 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. Appropriate business terminology should be used at all times.

Students should also be cautious in their discussion of old and young employees, as students often use many ill-advised stereotypes, e.g. young employees are better with technology, old people do not use social media. Students also frequently recommend discriminatory actions that 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) Overall, this question was not answered well and it was evident that there was a lack of understanding of what Key Performance Indicators are and how they can be used. The Business Studies syllabus suggests that KPIs related to marketing for performance evaluation can include financial factors (sales revenue, sales returns, cost reduction, profitability) and non-financial factors (quality, customer satisfaction).

Marks were awarded if students were able to give an example of something that was measurable and could be used as a KPI. Many students had difficulty providing an example that directly linked to marketing and then explaining how their suggestion would contribute to better management for FCE.

(b) It was evident that some students were unclear on the purpose of setting marketing objectives and that they should be used to determine the desired outcomes of a proposed marketing campaign. The Business Studies syllabus suggested marketing objectives include expansion, diversification, increasing market share and increasing size of existing market. Increasing customer satisfaction was also accepted. Interestingly, many students, when stating a relevant example, provided an answer that could also be used as a Key Performance Indicator (e.g. increase market share by 5% by 2021).

(c) Overall, this question was answered well with the majority of students explaining the issues of possibly over or under pricing. Stronger answers brought in the idea that the business is
currently using competition pricing from the stimulus but that they have a premium product. For full marks, it was important to state a possible outcome to the business if no market research was conducted.

(d) This question highlighted the importance of students addressing all parts of a question. For full marks, students needed to address first what a target market is (stronger answers stated that target markets can be divided by demographic, geographic, psychographic and behavioural factors) and then discuss an advantage of having an understanding of a target market when promoting a product. E.g. more cost effective and efficient use of advertising dollars as the marketing campaign can be targeted appropriately.

(e) Overall, students had a sound knowledge of stakeholders e.g. customers, managers, owners and employees, and most students were able to discuss an effect on that stakeholder if the business failed to implement suggestions of the tourist agency. It was evident however that some students had missed that the suggestions of the tourist agency had previously been provided at the beginning of question 9 (e.g. identify key performance indicators, set marketing objectives, conduct market research and select target markets) and provided vague, generalised answers.

(f) This question provided a mixture of responses and it was clear that some students struggled with the concept of ‘position’. Positioning as a concept is not made explicit in the Business Studies syllabus and is related to the concepts of branding, packaging, logo and corporate slogans. Answers that discussed the idea of positioning being how a product/service is perceived of in a customer’s mind or how it is viewed were accepted.

The question included two parts, explaining positioning and the link to premium pricing. Both parts needed to be addressed for full marks.

(g) Overall students performed well on this question and had a good understanding of the concept of promotion. Some candidates missed marks by not firstly explaining what a ‘promotion strategy’ is before moving on to outline one that would be relevant for FCE to use. This comes back to not reading the question carefully. Stronger answers were able to link back to the stimulus material.

(h) Most students found this question straightforward although stronger answers were clearly linked back to the suggested positioning and promotion strategies from question 9(f) and 9(g), and were linked back to the stimulus where appropriate.

(i) Students found this question straightforward with many making the link that successful positioning and promotion strategies would lead to an increase in work and wages for employees and probable economic stimulation for the local community due to an increase in visitor numbers to the area.

(j) Overall students answered this question well although some students made the same suggestions for both short and long-term outcomes. In general, short-term outcomes would be evident within 1 year while longer-term outcomes may take 1 – 5 years to become apparent.

Question 10

(a) This question was generally well done, ‘Human resource planning’ usually relates to future workforce needs and occurs across the full spectrum of HR management processes and strategy. It could relate to identifying staffing needs (numbers, skills, job design) during acquisition, training and development of staff, performance management, remuneration and
reward programs, change management, business culture or the separation of employees i.e. any stage of the HR cycle. As the lead-in statement to the question included the words ‘attract’, ‘develop’ and ‘retain’, students tended to focus on the acquisition stage.

Any stage of the employment cycle was accepted if students answered the question accurately. Many students mentioned staff turnover, resulting from the failure of FCE to undertake human resource planning. Some students discussed operations management issues or marketing management issues without drawing direct links to HRM, whilst better answers linked staff turnover to lack of planning.

(b) Stronger answers referred to the stimulus regarding how job design would address the confusion over the duties of FCE casual employees and their response demonstrated a clear understanding of job design. Poorer responses combined the two parts of the question, with insufficient terminology.

(c) Most students answered this question well with better answers addressing the stimulus and clearly identifying TWO reasons why FCE is experiencing difficulty with acquiring and keeping casual employees. The quality of the discussion of each reason separated the 2 marks to 4. Better discussions were clear about why it is difficult for FCE to acquire and keep/retain casual employees. Weaker responses purely identified TWO reasons with little or no discussion.

(d) Many students found this question challenging, possibly due to finding the wording confusing. Many did not address the stimulus to discuss the likely impacts on the performance of FCE caused by high casual staff turnover, opting for a more generic discussion about the impacts of high casual staff turnover.

When referring to business performance, better answers related to financial aspects, such as less revenue or increased expenses which results in less net profit. Other good answers used business terminology such as poor efficiency or reduced productivity.

(e) Most students understood the impact of high staff turnover. Better answers included examples from the stimulus, particularly when explaining the impact on customers. Stronger responses discussed each stakeholder separately whereas poorer responses combined them.

(f) This question was done very well, with most students receiving 3 marks. Students had a clear understanding of the difference between monetary and non-monetary rewards and linked to how an increase in these rewards may improve business performance. Better answers included an example to supplement definitions.

(g) Many students did not understand that the word “criterion” is the singular form of the word criteria. Most students displayed a general understanding of what constitutes a staff development program. Better answers explained how the suggested criterion could measure the success of the program and added more terminology around the explanation of the role of staff development programs.

(h) Most students did well in this question. Since there are two stakeholders in the question, each one needed to be treated separately. Poorer responses combined them.

Most students understood the impact of decreasing staff turnover although poorer answers focused on staff turnover in general, rather than decreasing staff turnover specifically. Better answers included examples from the stimulus, particularly when describing the likely positive outcomes for FCE employees.
(i) The question needed students to identify ONE legal and ONE social implication of moving from casual employees to permanent employees. Many students assumed that permanent employment meant that the casual workers would now be working full-time. Students should be aware that part-time positions in the workplace might also be permanent.

Many students either did not know what legal implications meant or did not provide enough terminology. When identifying legal implications, better answers referred to legislation such as the Fair Work Act 2009 and the National Employment Standards (NES). Other good answers referred to Modern Awards or Enterprise Bargaining Agreements.

Most students found social implications challenging. Students are encouraged to 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 casual employees becoming permanent, responses around employees’ work life balance and job security were acceptable, particularly if it was linked to the wider community. Better answers identified the potential increase in disposable income, and how the increased spending could benefit the community.

(j) There was some confusion over the purpose of an exit interview. The wording in the stimulus for question 10 parts (f–j) actually told students what it means and as long as students were familiar with the word “separate” in the employment cycle, they wrote good answers. Poorer responses repeated the same benefit for short term and long term. In terms of time, short term relates to the present until approximately 12 months, and long term often relates to a period between 1 and 5 years.

Better responses structured their answer by providing a heading for their two benefits: short term and long term.

Question 11

General comments
Students who did well in Question 11 were able to demonstrate a strong understanding of accounting, budgeting and finance. Without an in-depth understanding of the function and construction of income statements, balance sheets and cash budgets it was difficult for students to achieve ‘A’ ratings in both Criteria 3 and 4.

Students are encouraged to thoroughly read questions and attempt to answer every part of a question, ensuring responses are relevant. They should try to refer to the stimulus material where appropriate. It is important that answers are logical and detailed, displaying knowledge and understanding of the Financial Management process.

(a) Students needed to mention something about planning to meet financial obligations when they fall due to get full marks. A number of students exhibited a lack of understanding that cash budgets are a planning tool and not just a report.

(b) Marks were given for any logical answer relating to business performance that resulted from management making an incorrect or misguided decision based upon incorrect data. A number of students did not read ‘business performance’ and gave a marketing, HR or legal answer that did not attract marks. Some students correctly identified a business performance issue and logically connected this to a marketing, HR or legal issue and received part marks for this.
(c) Very few students mentioned that the source of funds should be matched to its use i.e. short term funding for short term assets (such as purchases of stock) and long term funding for purchase of assets that accrue benefits over a longer period of time (such as purchasing cottages). A number of students correctly described short and long-term finance and the advantages and disadvantages of each, and received marks for this.

(d) Marks were given where students mentioned any kind of impact on future operations that was logical. There was a lot of confusion as to where loan repayments appear in accounting reports. A number of students stated that ‘loan repayments’ will appear in the income statement when only interest expense payments will appear in the income statement. Students needed to mention a concrete impact on operations to get full marks i.e. high levels of existing borrowing and repayments preventing future expansion or purchase of stock, or a change in direction of the business due to bringing another investor onto the team.

(e) Marks were given for any logical consequences of inadequate financial planning. The obvious and perhaps best answers involved describing how late payment or lack of payment of wages impacts employees, and the similar impacts on suppliers.

(f) Most students correctly identified risks to the loan strategy but did not mention that most of the risks are due to factors outside of the business’ control. When describing indicators of success, most students did not mention the most obvious indicators such as increases in sales and profits and focussed on whether the business would be successful in making the repayments on the loan.

(g) There was confusion as to where ‘loan repayments’ appear in accounting reports. Very few students correctly described an increase in ‘interest expenses’ or ‘financial expenses.’ Some students exhibited a limited understanding of financial reports, confusing which reports featured assets, liabilities, revenue and expenses.

(h) Most students correctly identified that liabilities would not increase and that there would be increases in the asset and owner’s equity accounts. However, a number of students exhibited a limited understanding of the accounting equation and confused the possible impacts—and even which reports would be impacted.

(i) Strong answers included references to SMART goals and mentioned that goals give a business something to work towards and a road map to get there. Students should mention KPIs/ goals that are measurable and involve a time frame i.e. increase profit by 10% in 12 months.

(j) Strong answers mentioned a government entity such as the ATO, ASIC or the Fair Work Commission and suggested possible ramifications of incorrect reporting. Some students mentioned the ACCC, which was difficult to connect to monitoring financial performance. Marks were given where students logically described an example that could be perceived as unethical conduct.

SECTION B

Question 12

Part A

Students should avoid repetitive SWOT points e.g. strengths of ‘good environmental values’ and ‘clean, green’. Students also frequently mixed up internal and external points (strengths and opportunities, weaknesses and threats). E.g. loss of quality due to seasonal effects is not a weakness
(or internal issue). Weaknesses are issues that are within a business’ control. Students should be able to obtain most strengths from the stimulus rather than just make things up, (unless they're implied in the stimulus). Try to avoid one-word (minimalistic) answers, as these do not achieve full marks. Business Loan used incorrectly in SWOT.

Part B

(i) Ratio calculations were reasonable, but too many included dollar signs or did not show working out (which, if correct, is worth 1 mark). Other students did not round to two decimal places correctly and lost ½ marks for this.

Some students confused the current ratio calculation and did total assets/total liabilities instead—which received no marks.

Several students became confused about owner’s equity. Some students used the opening capital of 49,000 and others used the opening capital + net profit 161,500. The correct figure was the final owner’s equity of 61,500, once owner’s drawings (payments to owners) had come out.

(ii) Many students were confused about the current ratio and the term ‘liquidity’. The current ratio shows the extent to which the current assets can cover current liabilities. It assists a business in determining whether it’s managing cash flows so that it can pay its immediate debts. It does not relate directly to the liquidity of assets or a business’ ability to turn current assets (e.g. stock) over quickly. Liquidity is the extent to which a business can meet its financial obligations in the short term (less than 12 months).

Several students also confused ideas around profit with current assets, though most understood that current liabilities related to accounts payable and other short-term finances.

(iii) This question was generally answered poorly, lacking the detail required for 4 marks. Many students did not seem to understand the debt to equity (gearing) ratio, or what their ratio calculation from question (i) meant. Some students confused ideas around negative gearing with being highly geared. Students should have an understanding of financial stability (solvency) and how high levels of external (debt) finance impact on businesses in the long term.

(iv) There was a lot of confusion around this question and it seemed that many students did not read the question properly or did not have a clear understanding of industry averages. Few students received full marks for this seemingly straightforward question.

Better responses compared the ratios they had calculated in question (i) to the industry averages provided in the question and made a judgement as to whether the business compared favourably or not.

(v) This question was generally answered poorly. There were a lot of responses that displayed little ability to read and analyse financial statements, and no to poor understanding of cash flow and cash budgets. Many students read the cash budget as relating to 3 years rather than 3 months. Many looked at the balance sheet and/or discussed ratios. Several students recommended heavily cutting tours in order to cut costs, not making the connection that this would then cut cash receipts.

Better answers included detailed discussion of negative closing balances in the 1st and 2nd months (including figures from the cash budget), excess payments over receipts in the same months.
(including figures), or the need for a small amount of additional owner contributions or external finance to manage cash flow in the first 3 months.

(vi) Cash flow strategies required for this question were generally poorly done since cash budgets were so poorly understood in (v). Again students recommended cutting tours to cut expenses without acknowledging that this would impact on cash receipts. Students whose responses were around increasing inflows/receipts, reducing (or smoothing out) outflows/payments or sourcing additional capital did well.

Part C
(i) This question was well answered by students who attempted it. The most common error was failing to round up. There continues to be a significant number of students who do not understand the difference between fixed and variable costs (despite the fact that these were listed in separate tables in the question).

(ii) Many students did not attempt this question. Those who did attempt it generally answered it well. The most common error was students providing a price per group, rather than the price per person as asked by the question.

Those who rearranged the break-even formula before substituting the numbers generally performed better than those who substituted the numbers first and then rearranged the formula.

Students who used their calculated amounts TFC and TVC in Question 12(c)(i) were marked according to those amounts and thereby were able to attain the full four marks.

(iii) Not answering the question actually asked. Many students explained what break-even analysis is and did not include why it is important to a new business.

Part D

General comments
There was a tendency for students to simply list the impacts/factors/aspects/strategies and not analyse them in any detail.

(i)- (ii) Many students did not address the how part of the question. These students re-stated the threat and its potential impact or expressed a vague means of addressing the issue through blanket statements, e.g., Use promotion strategies—without stating how.

(iii) This question was generally well done by students, who had a reasonable grasp on impacts for both stakeholders. Most were social and economic impacts.

(iv) This question required an economic (microeconomic or macroeconomic) factor to be explained. Students should have brought in their knowledge about PESTLE from Unit 1 Business Environment.

(v) Too many students only identified and explained one aspect of the legal environment. Too many students didn’t refer to a particular or relevant legislation.

(vi) No marks for pricing method—must be an appropriate price strategy, with the strategy for how it would attract the older customer and meet their needs clearly explained. No reward/extra marks for multiple answers within each category.
Must be a promotion strategy, not a product/positioning strategy. ‘Offering a discount’ is not a promotion strategy.

Many students referred to ‘Above the line’ and ‘Below the line’ advertising, but a number of them confused the two concepts. Candidates are reminded that this is not in the Syllabus. If they do use it in their answer, they must use it accurately: ‘Above the line’ = mass marketing/mass media e.g. print ads, TV, radio and billboards. ‘Below the line’ = a more targeted approach/market segmentation e.g. Social Media Advertising, search engine marketing, PR and events.

Needed to be an appropriate strategy for older customers. Had to incorporate their needs and how the strategy would attract them and why it is a relevant option in the answer for full marks. E.g. if a student used ‘relationship marketing’ as their strategy, they needed to outline where they would locate the customer and how they would create the relationship with the older customer.

**NB:** Students are reminded that they shouldn’t negatively stereotype older customers; “Going to an old aged home and handing out flyers” is not an appropriate option – think of those broken hips and zimmer frames! “Older” people do not have a boring daily routine and do not spend all their time on the bowling green! Assuming that ‘Older people’ are the only ones who have time to go biking/camping at all times of the year is incorrect!

**Question 13**

**Part A**

Students should avoid repetitive SWOT points e.g. strengths of ‘good environmental values’ and ‘clean, green’. Students also frequently mixed up internal and external points (strengths and opportunities, weaknesses and threats) e.g. loss of quality due to seasonal effects is not a weakness (or internal issue). Weaknesses are issues that are within a business’s control. Students should be able to obtain most of the strengths from the stimulus rather just make up, unless implied in the stimulus. Try to avoid one-word (minimalistic) answers, as these do not achieve full marks. Business Loan used incorrectly in SWOT.

**Part B**

(i) Students who completed question 13 had less difficulty with financial ratios because the relevant ratios were both profit ratios—and these were generally well understood. However, many students still had the same issues in completing full and correct working out (worth 1 mark), rounding correctly and using the appropriate format (%). Half a mark was deducted if rounding was incorrect, if the % was not present, or the answer was presented as a ratio rather than a percentage.

(ii) This question was reasonably well done and most students were able to provide one conclusion about the ratios and projected income statements. However, many students did not link their analysis to the establishment of the new product line and so did not achieve full marks. A few students confused the income statement and cash budget.

(iii) Most students were able to draw one conclusion about the establishment of the new production line, while others simply analysed the cash budget and did not refer to the new production line part of the question. A few students confused the cash budget and income statements, or were confused by the loan proceeds. Use of terms such as inflows, outflows, cash position and the use of actual figures from the cash budget helped to achieve a full mark answer. Several vague answers that did not seem to relate to any of the information available were a concern, and students are encouraged to learn to read financial statements as an essential part of the course.
(iv) Students had great difficulty with this question, which was disheartening. Distinctions between the two financial statements proved elusive to too many students. Markers looked for 2 key elements of an Income statement (Revenue, COGS, Gross profit, expenses, Net profit, focus on revenue & expenses, profitability) and 2 key elements of a Cash budget (opening balance, cash receipts, cash payments, net cash and cash balances, cash flow, links to working capital and liquidity) in explanations of the distinction between the two statements. The best responses had strong knowledge of the difference between these statements and brought in the statements of Pipers Pickles in their explanation of elements of each statement.

(v) Students who read the question accurately were able to provide two cash flow strategies. The quality of explanations was variable but these were reasonably well done.

Part C

(i) Question very well answered with most students obtaining the correct answer. Some students had difficulty with classifying costs as fixed or variable. The most common errors were:
  - Rounding down instead of up.
  - Failing to recognize that the labour outlined in the sentence “Labour cost is based on $24 per hour and expected production of 12 bottles per hour per worker” is already included in the variable costs and consequently adding this amount to the figures for variable or fixed costs.

(ii) Generally well answered. The most common error was a failure to either convert the monthly production figure of (4, 200) to an annual figure (50, 400) or alternatively, convert the yearly fixed cost ($81, 000) to a monthly figure ($6, 750) and then use those adjusted figures in the calculations. Some students had difficulty with the manipulation of the break-even formula. Those who rearranged the break-even formula before substituting the numbers in generally performed better than those who substituted the numbers first and then rearranged the formula.

(iii) Not answering the question actually asked was a problem. Many students explained what break-even analysis is and did not include why it is important to a new product.

Part D

(i)-(ii) Many students did not address the how part of the question; these students re-stated the threat and its potential impact or expressed a vague means of addressing the issue through blanket statements, e.g. Use promotion strategies—without stating how.

(iv) Lack of understanding of what the question actually asked. Many students answered that an impact for employees would be a lack of job opportunities/rising unemployment. This is actually an impact on Tasmanian communities. If this was answered in the impact on employees section, marks were given for this answer in the impact on local communities section, although students could receive a maximum of 4 marks for each section.

SUGGESTED ANSWERS
SECTION A

PART 1: The Business Environment

Question 1
Suggested marking scheme: 2 marks for definition of entrepreneurship, 4 marks for economic role, 4 marks for social role.

Entrepreneurship is the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit.

Economic contributions
• 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.

Social contributions
• supporting local sporting teams and/or community groups
• engaging in ethical and sustainable business practices
• encouraging relationship building within the community
• 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
• ability for business owners to pursue their personal ideas and interests

Question 2
Suggested marking scheme: 2 marks for definition of entrepreneurship, 4 marks for each characteristic (2 marks for explaining each one; 2 marks for assessing importance of each to business success).

Entrepreneurship is the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit.

Characteristics/attributes of entrepreneurs
• moderate risk taker
• minimizes risks
• sees opportunities
• willing to learn
• strong communicator
• seeks expertise
• good at predicting the ‘next big thing’/reading markets

Good answers then explained how the two chosen attributes/characteristics impacted on business success by identifying how they could contribute to positive outcomes in a business situation. Better answers also provided examples to help illustrate their points.

Question 3
Suggested marking scheme: 2 marks for definition of business culture, 8 marks for part (b).

Business culture is the overall style, character or atmosphere created within a business involving interrelationships between employees, style of management, stakeholders, and expectations as to behavior and ethics. A business’ culture normally consists of the four elements of values, symbols, rituals/rites/celebrations and heroes.

Business culture can have either positive or negative influences on business achievement. Positive influences on business achievement can include: higher staff productivity, higher staff job satisfaction (and hence, lower staff turnover); pride in work, effective decision making, high community appreciation of the business, increased sales due to community support and good repeat custom from reputation. Positive influences mentioned needed a clear link between business culture and how each contributes to business success. Better answers again gave specific examples of companies (such as Google or Levi Strauss) that foster and embrace a flexible and productive culture. Examples of a flexible culture could include providing extended access to premises if employees wish to work out of hours to complete a project, but also allowing for time off to attend personal appointments.

Question 4
Suggested marking scheme: 2 marks for definition of corporate social responsibility, 8 marks for part (b).

Corporate social responsibility is the acceptance by a business organisation that it has obligations wider than just to owners (shareholders) and other close stakeholders, but also to the community in which the business operates and to society as a whole. It should try to be a good corporate citizen. (Eg consider the social and environmental implications of its actions). CSR may also involve the business going beyond what is legally required of them (W&H&S, FairWork, Environmental Protection, ACCC, and so on) in order to be regarded as good corporate citizens.

Due to the community’s growing expectation that businesses will be good corporate citizens, the likely business outcomes are that a business which has an emphasis on CSR will be regarded favourably as an employer of choice and hence attract and keep quality employees. The business product (good or service) will likely be viewed favourably by the community—increasing brand recognition and brand loyalty. The positive public relations value will increase awareness of the business and its product in the market.

Overall the effect of having a strong focus on CSR may be to increase sales volumes, to improve efficiency due to less staff turnover, resulting in improved long term profitability. However, it is important to note that for a business with a true commitment to CSR, increased profits may be secondary to efforts to improve social and environmental outcomes—i.e. altruism as the primary motive, rather than business related outcomes.

Question 5
Suggested marking scheme: 2 marks for definition of product differentiation, 8 marks for part (b), possible 4 marks for how businesses differentiate, 4 marks for the advantages in doing so.

Product differentiation is the conscious activity by a business to make its product appear different from the otherwise similar or identical products of its competitors, to create a competitive advantage.

How do business differentiate?
Candidates were given more credit for mentioning:
• Varying product features/colours/sizes/tastes etc.
• Varying the product quality,
• Varying augmented features.

In relation to Services:
• Varying time spent on services.
• Varying level of expertise/experience/technology/inputs used—feeds into the quality of what is offered for sale.

Candidates were given less credit for mentioning (in isolation):
• Unique selling proposition.
• Packaging and labelling.
• Rebranding.

Main advantages of differentiation are:
• Creation of consumer loyalty for the product and repeat customers.
• The capacity to increase price as consumers are committed to the product and see it as in some way superior.
• Target a different market segment.
• Increase sales and therefore profits.
• Increase market share.
• Build a brand.

Question 6
Suggested marking scheme: 2 marks for definition of just-in-time, 8 marks for part (b), possible 4 marks for benefits, and 4 marks for the difficulties.

Just-in-time (JIT) inventory control is an inventory management system in which raw materials and intermediate goods are purchased into inventory only when they are required to meet an order for the product.

Benefits of JIT
JIT removes the need for businesses to have extensive inventory holdings and is hence less costly in terms of storage. There is a lower chance of obsolescence and damage to inventory. It enables flexibility in that there can be a quick response to changing business environment circumstances when there is no substantial stock to be dealt with.
Good responses used examples to help explain their answer. For example, changing consumer demand (trends), changes in technology, changes in the economic cycle and changes in how inventories are sourced (e.g. e-Commerce).

Difficulties that may arise with JIT
An issue with JIT as a system of inventory control is its reliance on an efficient inventory ordering and dispatch system (logistics), and the capacity of suppliers to meet orders as they flow through. If inputs are not available (or to the required quality or quantity) then the benefits of JIT do not eventuate. The opposite occurs, resulting in disgruntled consumers when demand cannot be met in terms of quality or quantity, and the creation of strained relationships with suppliers.

Question 7
Suggested marking scheme: 2 marks for definition of total quality management, 8 marks for part (b) comparison, possible 2-4 marks for explaining another form of quality control and its benefits, 4-6 marks for the advantages of TQM. (Different approaches to the question by candidates).
Total Quality Management (TQM) focuses on managing the total business to deliver quality to customers and is a holistic approach to quality.

**Advantages of TQM over another form of quality control**
The advantage of TQM is that quality becomes the commitment and responsibility of every employee of the business. It is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business operation. All employees are involved in the prevention of quality problems. There is an understanding that if a product is built right in the first place, it avoids the expense of inspection and the waste of rejected products. It is also argued that by improving quality through adopting TQM, market share can increase as a result of better quality and lower priced products. (Business Studies in Action 6th Edition, Jacaranda, p.107)

Other forms of Quality Management that could have been considered to compare against TQM are Quality Control or Quality Assurance (Quality Improvement could have been considered although this is harder to differentiate from TQM as it also involves an ongoing commitment to improvement by all staff). Quality Control and Quality Assurance can be seen to not be as holistic as TQM as they may not involve all staff continually striving to prevent problems and improve quality, but can be applied to certain areas of the business/just one department. For example, Quality Control may only focus on fixing problems once they have occurred, not how to reduce the possibility of the problem happening in the first place.

**Question 8**
Suggested marking scheme: 2 marks for definition of outsourcing, 4 marks for explanation of benefit and 4 marks for explanation of potential issue.

Outsourcing relates to the contracting out of business functions to external parties rather than carrying out the function in-house. These can include:
- human resources e.g. employee remuneration, employee counselling, pensions, data management, training and development, or travel and expenses management
- administrative work including data entry and ‘back office’ work or accounting/bookkeeping
- information technology (IT) including data work, desktop outsourcing and network outsourcing (remotely hosted software applications).

**Benefits include:**
- cost savings, particularly if outsourced to a low wage country (offshoring)
- taking advantage of a higher level of expertise than available in-house
- reduced management tasks

**Potential issues include:**
- loss of quality control
- communication and language
- loss of control of standards and information security
- loss of corporate memory and vulnerability
- poor business practices by contractor
- need to co-ordinate and may not have the language skills

**SECTION B**

**Question 9 – Marketing Management**
(a) KPIs are a set of quantifiable measurements which allow for assessment of the effectiveness of management policies in the most important areas of the business operation. They may be used to set targets. Financial indicators include gross sales revenue and net profit. Non-financial indicators may include customer satisfaction; return customer bookings; bed/nights. Students should relate to the reading in their answer—FCE may have occupancy rate as a KPI and use this as a measure of how effective a particular marketing project has been.

(b) Objectives are target outcomes—a set of goals to be achieved through a marketing activity. Could include: increased sales; increased customer satisfaction; increased customer numbers generally or in specific target areas; increased market share and increased customer satisfaction. Important characteristics summed up through SMART acronym (Specific, Measurable, Achievable, Relevant, Time-bound). Example should be relevant to FCE and conform to these characteristics.

(c) Requires focus on price as an element of the marketing mix. Because price is an element of the marketing mix it is important that price is tailored to the target group identified. If FCE aims at the premium end of the market then price needs to reflect that—too low a price does not support the premium ‘message’. If FCE markets itself as environmentally responsible, the target group may see a higher price as reflecting the extra costs involved. If the target group is, say, young families with children, then the price might need to be below premium to match the nature of the intended customers. So, if market segments are not known then it is difficult for FCE to set a price as part of the marketing mix. A brief discussion of the effect of one of the issues identified above is required. For example: if price is set too low to give a premium message then market share of that segment falls. If target is budget-conscious then too high a price will reduce sales to the segment and hence lower sales revenue.

(d) Requires a focus on promotion as an element of the marketing mix. A target market is a defined sector of society to which a promotional activity is directed. Target markets need to be identified to ensure that promotion is conducted through an appropriate medium. FCE has several options to promote its product. FCE needs to promote with a medium which is suited to the target group. So, one issue is that the message is not heard as the target doesn’t use the medium (for example if pensioners are the target group then online marketing may not be as effective as, say, newspaper based or tourist bureau based advertising). Therefore, a clear understanding allows an appropriate medium to be chosen.

(e) Stakeholder chosen from suppliers, employees, managers, lenders, community etc. If FCE doesn’t implement suggestions then FCE will not have marketing focused on measurable performance objectives and will not have a full understanding of the nature of their potential customer. This suggests that sales performance will be lower than if FCE implemented suggestions, and this will consequently likely effect the chosen stakeholder.

(f) Requires understanding of the meaning of ‘position’. Position refers to the perceived quality level of the product relative to the competitors’ product in the mind of the customer—where it sits compared to competitive products.
Where a product sits between budget and luxury could be another way of looking at the concept of position. Price is an element of the marketing mix and reflects the product quality in consumer minds. The price needs to reflect the high quality implied by ‘premium’, and hence will need to be higher than competitor products.

(g) A promotion strategy is a plan for the promotion of a product. It may involve a range of media (print, TV, online, magazine, social media etc.) and/or activities such as public relations exercises, competitions etc. The promotion strategy chosen for FCE should be consistent with the nature of the business.

(h) Financial indicators might include profit level, sales revenue level etc. Non-financial indicators might include repeat bookings, bed/nights, referrals, customer satisfaction. Brief description of how each chosen indicator measures success.

(i) Requires understanding of success for employees: job opportunities; job security; increased income. Requires understanding of success for local communities: jobs and income for community; support for local businesses; expanded visitor knowledge of region.

(j) Requires one short term outcome such as: increased initial costs of materials; need to train staff in new materials; time taken to source materials. Requires one long term outcome such as: the benefit of marketing environmental credentials; increased favourable impression in the community (social responsibility). This should be related to FCE.

Question 10 – Human Resource Management
(a) Identify and explain ONE way in which the failure of FCE to undertake human resource planning may impact business profit.

(3 marks)

Marking scheme: 1 mark for the identification. Two marks for the explanation. If the impact on profit wasn’t referred to at all, students were only able to receive 1 or 2 marks, depending on the quality of their discussion.

Better answers referred to the stimulus provided. Answers that were not related to Human Resource Management received 1 mark if some good terminology relating to profit was included.

Answers may have included:
Failure to attract and recruit the right employees in the acquisition stage of the employment cycle can lead to:
• Inappropriate employees for the skill and knowledge set required.
• Inefficient/unproductive workers and hence a negative effect upon the quality of their work, which could lead to customer complaints. This could have an impact on revenue and net profit.
• Higher staff turnover, which leads to increased expenses in acquiring and developing new employees.
• Lower business performance in terms of loss of productivity. Time wasted by managers will also affect profits.
Failure to train and develop employees well in the Development stage of the employment cycle can lead to:

- Poorly completed work which would decrease customer satisfaction and have an impact on revenue and net profit.
- Increased staff turnover due to lack of job satisfaction and confusion over duties.

Failure to provide adequate monetary and non-monetary benefits in the maintenance stage could lead to:

- Employees not being retained due to them seeking work that offers more pay than the minimum wage. This impacts on profits through the need to re-acquire and train staff.
- All these consequences may adversely affect profit.

(b) What is job design? Explain how job design would address the confusion over duties of FCE casual employees.

(3 marks)

Marking scheme: 1.5 marks for the definition of job design and 1.5 marks for how it would address the confusion over duties. Better answers referred to the stimulus provided.

Answers may have included:

- Job design relates to the identification of jobs needing to be done, specification of tasks to be carried out for each job and helps to determine the set of skills and knowledge required to carry these out.
- Such a design would clearly and comprehensively define the duties of the casual employee positions and hence eliminate the confusion.
- May provide example from FCE.

(C) Identify and discuss TWO reasons why FCE is experiencing difficulty with acquiring and keeping casual employees.

(4 marks)

Marking scheme: 2 marks for each reason. If reasons were not discussed, only 2 marks could be awarded in total.

Better answers referred to the stimulus provided.

Answers may have included:

- Low rates of pay – minimum hourly rate. This leads to potential employees not wanting to apply for a position at FCE. It makes it difficult for FCE to retain staff due to them feeling undervalued and like they need a higher paying job.
- Inadequate training (of new staff and/or accommodation managers)
- Poor communication from managers
- Inconsistency in hours given
- Confusion of duties required

Each reason should briefly indicate how the chosen factor causes FCE to have difficulty with acquiring and retaining staff.

(d) Identify and discuss TWO likely impacts on the performance of FCE caused by high casual staff turnover.

(4 marks)
Marking scheme: 2 marks for each impact. If impacts were not discussed, only 2 marks could be awarded in total. Better answers referred to the stimulus provided and briefly indicated how turnover impacts performance.

Answers may have included:
- High casual staff turnover leads to increased costs of recruiting—impacting net profit
- Training and development expenses
- Lack of training leading to customer dissatisfaction due to low quality of work. Customers may not return and word of mouth about the business will be negative, which will affect revenue.
- Increased staff stress leading to low work standards
- Lack of morale, impacting on productivity and efficiency
- Lack of loyalty to business etc.
- Unmotivated and dissatisfied staff are more likely to do poor quality work, which may increase waste, negatively impacting performance and profits
- 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. 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

(e) Explain how high staff turnover in the FCE accommodation centres impacts:
- The local community and
- Customers

(3 marks)

Marking scheme: 1.5 marks for each stakeholder. Better answers referred to the stimulus provided.

Answers may have included:
Local community:
- loss of confidence in FCE as an employer
- Increased unemployment in the local area which would affect local businesses, quality of life, etc.
- less assured market for suppliers
- less tourism in the area which would impact on local businesses/suppliers

Customers:
- Dissatisfaction with the service due to poorly trained staff
- Inexperienced staff leading to poor quality of service
- Higher complaints due to insufficient staff numbers

(f) Distinguish between monetary and non-monetary rewards and briefly explain why an increase in these rewards may improve business performance.

(3 marks)

Marking scheme: 1 mark correctly identifying monetary rewards and 1 mark for correctly identifying non-monetary rewards. 1 mark for a correct explanation.
Strong answers explained how higher rewards should result in an incentive to work hard and succeed; it can also attract higher qualified and skilled people, and hence increase productivity, quality of work and, subsequently, business performance.

Answers may have included:
- Monetary: those reflected in pay or having a financial value; such as wages, salary, bonuses, payment for child care, payment for holidays, etc.
- Non-monetary: those rewards that do not have a financial value, such as social activities, retirement planning, safe and comfortable workplace; positive business culture, interesting work, recognition, flexible/family friendly working hours etc.

See Figure 16.8: Types of employee rewards (p.477), Business Studies in Action HSC Course 8th Edition

![Diagram of Rewards]

(g) Briefly explain the role of a staff development program and suggest ONE criterion FCE could use to measure the success or otherwise of the program.  

(3 marks)

Marking scheme: 1.5 marks for the definition. 1.5 marks for suggesting the criterion.

Answers may have included:
- Role of staff development: to improve skills and knowledge related to carrying out the duties of their position, and in operating in the work environment in general.
• Intended outcomes: output per employee increased (reduces costs of business), improved product quality (increases sales volume of business), more contented employees (reduces staff turnover)
• Criterion for success: staff turnover rates, improved efficiency, employee job satisfaction, customer satisfaction, performance appraisals

(h) If FCE is successful in decreasing staff turnover, describe the likely positive outcomes for: FCE managers, FCE employees

(4 marks)

Marking scheme: 2 marks for each description of positive outcomes for each stakeholder. Better answers referred to the stimulus provided where possible.

Answers may have included:
FCE managers:
• Reduces training requirements
• Staff morale improvement
• Employees aware of organisational culture
• Saves time and money spent on recruitment
• Better relationship with staff
• More efficient production
• More efficient staff which may lead to monetary rewards for managers and has the potential to improve the business culture

FCE employees:
• Improved job security
• Positive consequences of improved work conditions
• Established interrelationships with colleagues
• More productive, improved job satisfaction

(i) Identify ONE legal and ONE social implication of moving from casual employees to permanent employees.

(4 marks)

Marking scheme: 2 marks for each implication. In each implication, 1 mark for very brief examples with lack of business terminology.

Answers may have included:
Legal implication:
• Complying with various awards, if relevant
• Complying with the enterprise agreement (EBA), if there is one
• Complying with the Fair Work Act 2009
• Complying with National Employment Standards (NES)
• Complying with Equal Employment Opportunity and Anti-Discrimination legislation
• Dismissal laws

In selection of permanent employees and when referring to relevant legislation, students should refer to aspects such as different leave requirements; different pay requirements, etc.
Social implications:
- Increased quality of life
- Maintain job satisfaction and motivation
- Benefits to the local community—a greater number of employees may stay in the local area as they won’t need to move away due to inconsistent work. A non-transient workforce supports community development
- Increased earnings may lead to increased spending in the local community
- Certainty of employment boosts confidence in investing in the community, supporting local businesses
- Increased security in borrowing, for example, a mortgage.
- A negative social implication could be loss of flexibility in hours.
- May result in less young people being employed.

(j) What is ONE short term and ONE long term benefit that would accrue to FCE when they implement the exit interview for all staff who separate from the business?  

(4 marks)

Marking scheme: 2 marks for each benefit, one short term benefit and one long term benefit.

Answers may have included:
Short term benefit (present time up to 12 months):
- Through feedback given by the separating employee, FCE can identify issues that can be immediately addressed. These may relate to monetary and non-monetary rewards, interpersonal relationships, unsatisfactory physical work environments, poor business culture etc.
- May be able to address some of the issues in the short term, if they have the resources and time

Long term benefit (generally 1–5 years):
- Through feedback given by the separating employees, FCE may be able to address employee issues.
- Increased employee satisfaction due to better working conditions
- Improved business culture
- Decreased staff turnover
- Improved career prospects
- Improved monetary and non-monetary benefits
- Improved management style

Question 11 – Financial Management

(a) Businesses need cash budgets to ensure that they can always meet cash obligations when they fall due. If they cannot do this then they become insolvent. FCE has particular issues due to seasonality; as cash receipts vary over the financial year they must plan to ensure they have cash available to meet debts payable even when their current receipts of cash are low.

(b) Choice fairly wide. Two major accounting reports are Income Statement and Balance Sheet. An inaccurate Income Statement may result in misunderstanding on the level of expenses leading to poor decisions on expenditure. Inaccurate profit measurement would work against understanding the effect of management decisions on the bottom line. An inaccurate Balance Sheet may disguise true levels of liabilities leading to poor borrowing decisions. Asset cover may be overstated.
(c) The main point to be explored is that the term of any source of finance should be matched to the anticipated use of the funds. (May not be so formally presented).
Short term sources such as overdraft and relatively short term loans less than a few years should be used to fund assets with short term useful life or short term debt.
Long term sources such as mortgage loans or equity capital should be used for long term assets such as property. Otherwise businesses can end up with debt and no benefit, or higher than necessary finance costs/interest rates.
In terms of the new cottages long term debt (mortgage, long term loan or equity funding) is indicated.

(d) Future impact on operations by deciding to purchase through borrowing (some explanation required)
- need to repay in future out of revenue, thus reducing profit;
- increases level of liabilities, thus leaving capacity for future developments weakened;
- may reduce capacity for future borrowings;
- no loss of control by existing owners;
- no need to share profits.
Future impact on operations by deciding to purchase through equity capital (new owner(s)) (some explanation required)
- potential loss of control/influence over business operation due to new owner(s) introduced;
- profits may now be shared among more owners;
- supports credit rating for future funding;
- does not need to be repaid directly.

(e) Employees inadequate planning may result in liquidity problems; FCE may need to lay off employees; monetary rewards may be reduced to minimum legal requirement; loss of hours for casual employees; restrictions on non-monetary rewards; feeling of job insecurity

Suppliers: receiving payment late or not at all; loss of customer if they become insolvent because of inadequate planning;

SECTION C

Question 12

PART A: SWOT Analysis

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Experienced in cycle touring</td>
<td>• No detailed research into market</td>
</tr>
<tr>
<td>• Community interest in cycling</td>
<td>• Lack of business experience</td>
</tr>
<tr>
<td>• Community interest in healthy activity</td>
<td>• No online presence</td>
</tr>
<tr>
<td>• Environmentally conscious</td>
<td>• Lifespan of equipment</td>
</tr>
<tr>
<td>• Suitable location</td>
<td>• Need for set number of riders per tour</td>
</tr>
<tr>
<td>• A six day fully supported bicycle tour, exciting routes, expert tour guide, support vehicle</td>
<td></td>
</tr>
<tr>
<td>• High quality meals, latest modern bicycles, high quality camping gear</td>
<td></td>
</tr>
<tr>
<td>Opportunity</td>
<td>Threat</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Insurance provided</td>
<td>• Increased interest rates</td>
</tr>
<tr>
<td>• Equity finance, own residences</td>
<td>• New unforeseen competition</td>
</tr>
<tr>
<td>• Engaging in CSR</td>
<td>• Changes in consumer tastes</td>
</tr>
<tr>
<td>• Development into mountain biking</td>
<td>• Market size inadequate</td>
</tr>
<tr>
<td>• New target markets</td>
<td>• Increases in insurance and catering costs</td>
</tr>
<tr>
<td>• Expansion to suit older riders</td>
<td>• Weather events, climate change</td>
</tr>
<tr>
<td>• Community interest in cycling</td>
<td>• Economic downturn</td>
</tr>
<tr>
<td>• Respond to increased society interest in health and fitness</td>
<td>• Stricter environmental legislation (higher compliance costs), injury/death</td>
</tr>
<tr>
<td>• Partnership with bike companies (sponsorship)</td>
<td></td>
</tr>
</tbody>
</table>

**PART B**

(i)  

**Current ratio**

**Measure of liquidity**

Current (or working Capital) Ratio = \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)

(Expressed as a ratio to 1)

\[
\begin{align*}
37,000 & \\
24,000 & \\
\text{= 1.54:1} & \\
\end{align*}
\]

**Debt to equity ratio**

**Measure of financial stability**

Gearing Ratio = \( \frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100 \)

(Ratio to be calculated to the nearest two decimal places)

\[
\begin{align*}
94,000 \times 100 & \\
61,500 & \\
\text{= 152.8455285} & \\
\text{= 152.85% (152.84% also accepted)} & \\
\end{align*}
\]
Marking scheme for each ratio: 1 mark for correct full working out, 1 mark for the correct answer (half marks off for incorrect rounding, incorrectly formatted answer)

(i) Current ratio exhibits an upward trend from 1.28:1 to 1.54:1. This suggests that Tas Bike Tours will increasingly be able to cover current liabilities with current assets and hence liquidity (the capacity to meet short term debts as they fall due) is improving.

Marking scheme: 1 mark to identify trend (up/down), 1 mark for whether the trend represented is an improvement or deterioration, 2 marks to link to liquidity and what it means for the business.

(ii) Debt to equity (gearing) ratio is projected to increase from 121.82% to 152.85%, suggesting that, if these projections are realistic, that liabilities are growing compared with equity. That means that capital used by the business is increasingly sourced from debt finance rather than being equity finance. This means that in the long term financial stability could be under threat and solvency may become an issue.

Marking scheme: 1 mark to identify trend (up/down), 1 mark for whether the trend represented is an improvement or deterioration, 2 marks to link to long term financial stability and what it means for the business.

(iii) Tas Bike Tours is below the industry average current ratio, but the projections show that the trend is moving closer to the industry average. The industry average debt to equity ratio is well below the worsening trend of Tas Bike Tours, suggesting that if their projections are accurate that the business will be significantly more exposed to debt than other industry players. They need to improve their efficiency and financial stability in order to more readily compete within the industry.

Marking scheme: 1 mark for each industry average comparison

(iv) The issue faced is a negative closing cash balance in the months of January (deficit of $680) and February (deficit of $1,840). The month of March sees a positive closing cash balance of $1,860. Note that although the budget moves to surplus, steps must be taken to address the deficit in January and February.

Marking scheme: 1 mark to list the issue, 1 mark to clearly identify (use info from the cash budget/explain)

(v) Strategies should relate to the management of cash flow.

Possible answers include:

- Cover cash deficit with overdraft
- Increase sales volume/price
- Look for cheaper suppliers/equipment
- Reduce payments to suppliers or seek longer credit terms in the short term
- Reduce tour expenses if at all possible
- Accounts receivable strategies (easy to pay, incentives, penalties, reminders)
- Increase capital introduced by owners by at least $2,000
Marking scheme: 1 mark for naming each strategy, 1 mark for explaining each strategy (2 + 2 = 4 marks)

PART C
(i) Total variable costs: 300 + 220 + 40 + 50 + 250 + 1, 000 + 1, 000 = 2, 860 (0.5 mark)
Total fixed costs: 18,000 + 7,500 + 15,000 + 3,600 + 2,500 + 90,000 + 400 = 137,000 (0.5 mark)

Note: Also accepted ‘Owner’s Drawings’ not being included as fixed costs, making TFC 47,000, BEP = 36 tours

BE = \frac{Fixed Costs}{(Selling price − Variable Cost)}
= \frac{137,000}{(4,200 − 2,860)}
= \frac{137,000}{1,340} \quad (1 \text{ mark for working based on calculated TFC or TVC})
= 102.23

Rounds up to 103 tours
1 mark for correct answer. If not rounded, 0.5 only. If rounded down, 0.5 ONLY.

Other: 1.5 marks for BEP answer with no working, extra 0.5 for correct terminology associated with answer.

Comment:
This question was well answered by students who attempted. The most common error was failing to round up. There continues to be a significant number of students who do not understand the difference between fixed and variable costs (even despite the fact that they were given these in separate tables in the question).

(ii) Total Variable costs = 2,860
Total Fixed costs = (137,000 − 8,000) = 129,000 (1 mark for calculating NEW FC)

(Also accept $39,000 if students didn’t include the Drawings in the TFC)

Volume = 100 tours

Selling price (S) = \frac{Fixed Costs}{Volume} + Variable Costs
= \frac{129,000}{100} + 2,860 \quad (1 \text{ mark for working})

= 1,290 + 2,860
= $4,150 per group (also accept $3,250)

Per person = \frac{4,150}{10} = $415 (also accept $325) \quad (1 \text{ mark for getting group price})

New price to break even at 100 tours per year is $415.00 per person.

If there was an error in calculating New TFC but all other areas correct = maximum of 2 marks.

Comment
Many students did not attempt this question. Those who did attempt it generally answered it well. The most common error was students providing a price per group, rather than the price per person as asked by the question. Those who rearranged the break-even formula before substituting the numbers generally performed better than those who substituted the numbers first and then rearranged the formula. Students who used their calculated amounts TFC and TVC in Question 12(c)(i) were marked according to those amounts and thereby able to attain the full four marks.
(iii) BE analysis finds the sales volume needed to cover costs and therefore assists in determining the likely success or failure of the new business. BE analysis supports price setting through ‘what if’ calculations. It’s a powerful tool as it allows for the manipulation of calculating different scenarios based on alterations of Cost, Volume and Profit.

1.5 marks for Volume or Cost concepts, 0.5 marks for concept of BE helping to identify a profit. 1 mark for identifying help in price setting and/or help with decision making. Answers should be focused on a NEW business! To a maximum of three (3) marks.

Common issues:
Not answering the question actually asked. Many students explained what break-even analysis is and did not include why it is important to a new business.

PART D
(i) and (ii)
Many students did not address the how part of the question, these students re-stated the threat and its potential impact or expressed a vague means of addressing the issue through blanket statements, e.g. Use promotion strategies—without stating how.

Exploit Opportunities
- More employment in the community
- Higher income in the community feeding into an increase in customers
- Beginner classes
- Amateur routes
- Course for older clientele (shorter trips and beginner activities)
- Exploit growing interest in cycling/outdoors through promotional strategies such as social media, advertising etc.
- Partner with suppliers (bike and catering) for mutual promotional benefits and discounting
- Attract high quality employees to enhance business reputation
- Promote unique experience by partnering with local community groups

Address Weaknesses
- (Lack of market research) Conduct appropriate market research via primary (survey) and secondary (internet, competitors’ websites, social media platforms) research to accurately define target market
- (Lack of business experience) Employ experienced business manager, contract business mentor, attend business courses
- Purchase higher quality bicycles to prolong life
- Conduct own maintenance on bicycles to prolong life
- Investigate possibility of smaller tour sizes
- Become more social media oriented via Facebook, Twitter

(iii) Some suggestions for local community:
- Increased number of customers for local organic suppliers
- Local employment opportunities
- More business activity in local community/create growth in the local community
- Creates a positive feeling in the community as Tas Bike Tours (the business) is willing to invest in the local community/brings the community closer together/fostering community spirit/boosting community morale.
• creating a shortage of supply within local economy.
• Increased demand for products may increase prices of the produce so it is more expensive for those in the local community (this is a negative impact)
• NB: support for healthier environment was not acceptable

One mark for identifying, 3 marks for explaining. If list only, maximum of 2 marks.

Some suggestions for potential tour customers (This part of the question was not as well answered.)
• improved customer experience as quality of product will increase, so customers will enjoy their experience more
• additional sense of ‘natural’ experience for customers to eat locally produced organic food options
• healthier options, more sustainable energy food for bike riding, feel better about what they’re eating
• better perception of the business as they are seen to be using organic produce, in line with their outdoorsy and nature-based experience image
• creating a better feeling within the customers as they are helping the local businesses.
• better fit with target market desires, though perhaps more expensive
• increased price—cost will be higher so tour price will have to increase (a negative impact)

One mark for identifying, 3 marks for explaining. If list only, maximum of two marks.

(iv) **Economic environment** – question was on adverse effects on business.
• economic downturn/recession/trough in economic cycle leading to declining demand and therefore less sales. Bike tours are a more discretionary spending item so as disposable income falls, there will be less demand.
• any economic instability may lead to a bank loan application being rejected, which will cause problems for the business re: set up, expansion and meeting operational requirements.
• interest rate changes: increased costs/expenses through interest rate increases, or vice versa.
• increased levels of unemployment in the economy generally causing a reduction in demand appreciation of the Australian dollar reducing international tourism.
• changes in competitor environment with a new business entering the market and taking market share, which would affect TBT’s ability to operate/make profit
• inflation by itself is not a change in the economic environment and needed further explanation on how the business would be ADVERSELY affected.
• not to do with weather conditions or climate change!

*Marker’s Comment: this question required an economic factor to be explained. Students should have brought in their knowledge about PESTLE from Unit 1 Business Environment.*

(v) **TWO aspects of the Legal Environment**
• Workplace Health and Safety (WH&S)—overseen by WorkSafe Tasmania
• EEO laws—Anti-discrimination Act
• Taxation changes—Australian Taxation Office
• Australian Consumer Laws overseen by ACCC, regarding false advertising, guarantees, fit for purpose product/service
• Public liability insurance, personal injury insurance, NES/Awards for employment, ASIC, local legal rules regarding road use or other matters that impact the business. Instant asset write-off/ changes to depreciation laws.
0.5 mark for listing. 1.5 mark for explaining (x2). Referral to legislation or overarching concept required for full marks.

Comment:
Too many students only identified and explained one aspect of the legal environment. Too many students didn’t refer to specific or relevant legislation.

(vi) Price strategy for older customers can go either way; premium pricing for wealthier older customers, or special discounted pricing for older people relying on superannuation and/or pensions.

Price strategy could include:
- Price skimming/premium pricing to take advantage of the newness of the product
- Penetration pricing to undercut competitors and gain market share for new product (NB: given this is a new product, it could be assumed that there are no other competitors already in the market, and therefore if students used this strategy, they needed to outline the assumed competitors in the market and fully explain the strategy in order to receive full marks)

No marks for pricing method—must be an appropriate price strategy and must clearly explain how the strategy would attract the older customer and meet their needs.
Promotion strategy should identify that older potential customers will respond to different messages and different media (perhaps) than younger consumers.
Promotion strategies include: advertising, online, personal selling/direct marketing, sales promotion, publicity and public relations.

1 mark for identifying, 2 for explaining $\times 2 = 6$ marks. Must have ONE of each (price strategy and promotion strategy). No reward/extra marks for multiple answers within each category.

Question 13

PART A: SWOT Analysis

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Premium product</td>
<td>• Labour intensive</td>
</tr>
<tr>
<td>• Environmental values</td>
<td>• Lack of experience with export market</td>
</tr>
<tr>
<td>• High price point</td>
<td>• Distance to new market</td>
</tr>
<tr>
<td>• Experienced with product</td>
<td>• Domestic size of market for kimchi not known</td>
</tr>
<tr>
<td>• Factory exists</td>
<td>• Quality affected by seasonal nature of business</td>
</tr>
<tr>
<td>• Good location</td>
<td></td>
</tr>
<tr>
<td>• Well-labelled bottles</td>
<td></td>
</tr>
<tr>
<td>• Feasibility study</td>
<td></td>
</tr>
<tr>
<td>• Secured funding (external)</td>
<td></td>
</tr>
<tr>
<td>• Growing business</td>
<td></td>
</tr>
<tr>
<td>• Small local business</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New product (kimchi)</td>
<td>• Seasonal conditions</td>
</tr>
<tr>
<td>• New markets in export</td>
<td>• Unfavourable exchange rate movements</td>
</tr>
<tr>
<td>• Outsourcing</td>
<td>• overseas climatic conditions</td>
</tr>
<tr>
<td>• Technological developments (e.g. packaging)</td>
<td>• Interest rate increases</td>
</tr>
<tr>
<td>• Massive potential market</td>
<td>• New competition</td>
</tr>
<tr>
<td></td>
<td>• Changes in tastes</td>
</tr>
</tbody>
</table>
- Growing demand
- E-commerce
- Expansion of product range
- Competitive pricing
- Take advantage of importer’s variable cost and quality
- Production of new product at lower production costs through wages and proximity to distributors
- International trading conditions (free trade agreements, U.S. - China trade tensions etc.) Competition from importers
- Importers sourcing product from overseas, loss of important customers
- Economic downturn
- Drought, disease
- Business closure due to sales lost during off-season

**PART B**

**Comment:**
There was a problem with the income statement on page 19 and the Net profit ratios provided on page 20 of the examination paper which students completed (online paper has been corrected). The income statement for 2020-2022 had incorrect years across the three columns, labelled 2019, 2020 and 2021. In (i) students were asked to calculate ratios for 2022. Most students either did not seem to notice the discrepancy or corrected the income statement and completed the ratios correctly. The incorrect Net profit ratios provided for 2020 and 2021 (both given as 19.66%) should have read 19.26% in 2020 and 18.35% in 2021. This issue only impacted the range of answers which students could provide in (ii), though some students did notice the error.

(i) Calculate the gross profit ratio and the net profit ratio for 2022 from the projected income statements above. Show your workings. (4 marks)

*Marking scheme: 1 mark for working out, 1 for correct answer, half marks off for no % or incorrect rounding. Because students either did not notice or seemed to grasp the issue with this question there were no alternative approaches or answers.*

Calculating 2021 (from original paper, 2022 in corrected paper)

<table>
<thead>
<tr>
<th>Gross Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit ratio = (\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100)</td>
</tr>
</tbody>
</table>

(Ratios to be calculated to the nearest two decimal places)

- \(\frac{686,000}{1,400,000} \times 100\)  
- \(= 0.4892857143\)  
- \(= 48.93\%\) (48.93% accepted)
Net profit ratio

\[
\text{Net profit ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100
\]

(Ratios to be calculated to the nearest two decimal places)

\[
\frac{254,000}{1,140,000} \times 100 = 22.28070175 = 22.28\%
\]

(ii) From your calculations and the provided projected income statements draw ONE conclusion regarding establishment of the new production line.

Marking scheme: 1 mark for conclusion linked to new production line, 1 mark for use of calculations or projected income statements information provided

Possible answers include:
New product line should go ahead/should not go ahead/should be postponed/should go ahead with modifications because... Or new product line will result in impacts to profitability (ratios)/impacts on expenses/revenue/profit (income statements info)...

- Net Profit decreased by 5,000 from 183,000 to 178,000 in 2019/2020/2020/2021, and then increased by 76,000 from 178,000 to 254,000 in 2020/2021/2021/2022.
- Gross Profit increased by 18,000 from 530,000 to 548,000 in 2019/2020/2020/2021, and then increased by 138,000 from 548,000 to 686,000 in 2020/2021/2021/2022.
- Over the 3 years NP increased by 71,000 from 183,000 to 254,000 and GP increased by 156,000 from 530,000 to 686,000.
- Sales increased 190,000 over 3 years up 20,000 in the 1st/2nd years and 170,000 in the 2nd/3rd years.

(iii) From the provided cash budget draw ONE conclusion regarding establishment of the new production line.

Marking scheme: 1 mark to name a conclusion, 1 to explain it using appropriate cash budget terminology.

Students needed to make a judgement about the new production line and its impact on inflows, outflows, opening and closing balances (the cash position of the business).

E.g. The establishment of the new production line has created a cash shortfall in both January 2020 ($4100) and February 2020 ($8300). This suggests that the new production line will lead to liquidity issues.

(iv) Explain the distinction between the information provided by the Income Statement and the information provided by the Cash Budget.

Marking scheme: 2 marks for discussion of income statement information, 2 marks for discussion of cash budget information. Better answers will explicitly explain the difference.
Students needed to make a distinction between income statements, which provide information on the profitability of the business (sales, COGS, gross profit, expenses and net profit), and the cash budget, which is concerned with the cash flow of the business (inflows, outflows, cash position).

E.g. The income statement discloses all revenues earned and all expenses incurred and calculates net profit for the period. It includes all transactions regardless of whether they are cash transactions or not. The cash budget records only inflows and outflows of cash and the resultant cash position of the business at the end of the budget period.

(v) The cash budget shows negative cash flows in January and February. Identify and explain TWO strategies that Pipers Pickles may employ to address that issue.

Marking scheme: 1 mark for naming each strategy, 1 mark for explaining each strategy (2 + 2 = 4 marks)

Possible answers include:
- Cover cash deficit with overdraft
- Delay the new production line
- Increase borrowing to cover new production line.
- Increase commercial sales volume/price by [...] 
- Increase retail sales volume/price by [...] 
- Reduce payments to suppliers by [...] 
- Reduce/keep constant payments to employees by [...] 
- Reduce other admin costs/other payments
- Accounts receivable strategies (easy to pay, incentives, penalties, reminders)
- Extend loan period

PART C

(i) F.C. = 3,000 + 8,000 + 50,000 + 20,000 = $81,000 (or 61,000 if not including 'Annual return to business')

V.C = 0.20 + 0.15 + 0.02 + 2.00 + 0.90 + 0.07 = $3.34

(0.5 marks for correct calculation)

Selling price = $5.20

BE = Fixed Costs/(Selling price – Variable Cost)

= 81,000/(5.20 – 3.34)

= 81,000/1.86

= 43,548.3871

= 43,549 bottles per year (or 32,796 if not including 'Annual return to business' in TFC)

(1 mark for working based on calculated TFC or TVC)

I mark for correct answer. If not rounded, 0.5 only. If rounded down, 0.5 only.
Other: 1.5 marks for straight answer with no working, with extra 0.5 for correct terminology associated with answer

If fal for red herring regarding the Labour cost information:
- Place $24 labour as FC (and various manipulations of this) and all other parts correct/perfect:
  - Adding $24 to FC only (BE 43 562)
  - Multiplying labour by 12 to get yearly figure of $288, which is then added to FC (BE 43 704) (1.5 marks max)
  - (2 marks max)
• Place labour as VC
  ● Double count labour (i.e. add $2 to Labour) and all other parts are correct/perfect then 1.5 marks—
    if identify as absurd answer then 2 marks.
    ▪ TVC = $5.34   BE = -578 572
  ● Added labour of $24 to VC and all other parts are correct/perfect then 1 mark.
    If identify that the answer is absurd then 1.5 marks.
    ▪ TVC = $27.34   BE = -3 659

General comments: (Maximum marks subject to correct calculations and rounding marks as per above):

  • Miscalculation of TFC or TVC: maximum of 2.5 marks
  • Annual return to Business not included in TFC: maximum of 3 marks
    • TFC = $61,000   BE = 32,796
  • Annual return to Business subtracted from other FC: maximum 2 marks
    • TFC = $41,000   BE = 22,044

Comments:
Question very well answered with most students obtaining the correct answer. Some students had
difficulty with classifying costs as fixed or variable. The most common errors were:

• Rounding down instead of up.
• Failing to recognize that the labour outlined in the sentence “Labour cost is based on
  $24 per hour and expected production of 12 bottles per hour per worker” is already
  included in the variable costs and consequently adding this amount to the figures for
  variable or fixed costs.

(ii) Students needed to either divide fixed costs by 12 or times volume by 12 to get the same units.
In the example below the volume per month is multiplied by 12 to get the yearly figure, although
both methods give a new selling price of $4.95.

Variable costs = $3.34
Fixed costs = 81,000 (per year) or alternatively 6,750 (per month)
Volume = 50,400 per year (need to times 4,200 per month by 12 for per year)

1.5 marks for manipulating either Volume to yearly figure or FC to monthly figure based on figures
students calculated in 13(c)(i)
No manipulation of figures = maximum 2.5 marks.)

Selling price = ?
Selling price (s) = \[ \frac{\text{Fixed Costs} + \text{Variable costs}}{\text{Volume}} \]
\[
S = \frac{81,000 + 3.34}{50,400} = \frac{81,000}{50,400} + \frac{3.34}{4,200}
\]
\[ S = 4.947 + 0.81 \]
\[ S = 4.95 \]

(1.5 mark for correct answer based on calculated figures, 0.5 only for not rounding.
1 mark for $ sign but no rounding, 0.5 if round down.)

Suggested new break-even price at 4,200 bottles per month is $4.95.
If students used figures they calculated in 13(c)(i) then they are able to get the maximum marks (4 marks)
If an error is made during algebraic manipulation of figures and provided working is correct—no marks are providing for working. If the student carries error through then they are able to get 1.5 marks for final answer, provided rounding etc is correct. This gives a maximum of 3 marks.

**Answers**

- Place $24 labour as FC and all other parts correct:
  - Adding $24 to FC only ($S = $4,9476)
  - Multiplying labour by 12 to get yearly figure of $288, which is then added to FC ($S = $4,9528)
- $24 labour as VC
  - Manipulate (i.e. divide $24 by 12 to get $2 which is added to VC).
    - TVC = $5.34  S = $6.9471
  - Added of $24 to VC.
    - TVC = $27.34  S = $28.9471

**General comments**

Maximum marks subject to correct calculations and rounding marks as per above:

- Annual return to Business not included in TFC
  TFC = $61,000  S = $4,5503
- Annual return to Business subtracted from other FC
  TFC = $41,000  S = $4,15349

**Comments:**

Generally well answered. The most common error was a failure to either convert monthly production figure of (4, 200) to an annual figure (50, 400) or alternatively, to convert the yearly fixed cost ($81, 000) to a monthly figure ($6, 750) and then use those adjusted figures in the calculations. Some students had difficulty with the manipulation of the break-even formula. Those who rearranged the break-even formula before substituting the numbers in generally performed better than those who substituted the numbers first and then rearranged the formula.

(iv) BE analysis finds the volume of sales required to cover costs and therefore assists in determining the likely success or failure of a new product. It helps the business in setting the price to sell the new product, and to make appropriate decisions about the product such as whether or not the product is feasible, or ways to reduce costs associated with production. It's a powerful tool as it allows for the manipulation of calculating different scenarios based on alterations of Cost, Volume and Profit.

1.5 marks for Volume or Cost concepts, 0.5 marks for concept of BE helping to identify a profit
1 mark for identifying help in price setting and/or helping with decision making
Answers should be focused on a NEW business! To a maximum of three (3) marks)

**Common issues:** Not answering the question actually asked. Many students explained what break-even analysis was and did not include why it is important to a new product.

**Model answers**

Break-even analysis helps a business identify the volume of the product it will need sell so that all costs associated with the product are covered at a particular price. Businesses can use this information in their planning to determine whether the product is viable, and if so, at what price the product should be sold.

**PART D**

(i) and (ii)
Many students did not address the **how** part of the question, these students re-stated the threat and its potential impact or expressed a vague means of addressing the issue through blanket statements, e.g. Use promotion strategies—without stating how.

**Take Advantage of Strengths**
- Any processes or strategies which improve business performance
- Take advantage of any strength appropriate promotion strategy e.g. advertising, social media, sales promotions, brand image etc.
- Use product differentiation for competitive advantage > increase sales > increase profit > improve business performance
- Use knowledge and experience built up by the business to explore product range expansion
- Premium product status can justify higher ‘premium’ prices
- Take advantage of location through brand visibility, signage etc.
- Use the good, environmentally friendly brand image to attract high quality workers
- Take advantage of growing business (as evidenced by increased sales and profits) by putting money back into the business and building up equity

**Address Threats**
- Address the threat of overseas competition through obtaining a competitive advantage via product differentiation
- Economies of Scale
- Address threat of low quality due to seasonal variation by improving infrastructure, e.g. hot-houses etc.
- Reducing wage costs (cost leadership) by outsourcing > competitive advantage > reduce threat of overseas competition
- Mitigate against interest rate increases by taking out fixed rate loans, re-balancing source of funds toward equity finance, selling non-productive assets
- Mitigate against economic downturn by establishing strong customer loyalty in good times e.g. loyalty or customer incentive programs
- Adapt products to be more suited to customers’ current needs
- Diversify business to minimise potential damage from customer losses
- Mitigate against exchange rate fluctuations through investigation of available options to reduce exchange risk (e.g. through accountant/finance advisor)
- Re-introduce as an improved product
- Price penetration strategy and introductory offers
- Strong promotional strategies to address threat via social media, advertising etc.

(iii) Any reasonable response, marked on merit. Some suggestions for **local employees**
- Loss of jobs/underemployment/lack of job opportunities
- Lack of professional development related to new skills.
- Need to retrain employees
- Concern by remaining employees over their jobs—causing declining morale/lack of motivation/some may resign/cause poor or unproductive business culture
- Being put off/made redundant—could get a payout (positive impact)
- May argue unfair dismissal and sue PP which could result in decreased sales and bad publicity
- Opportunity for local employees to engage with Asia/learn about the Asian way of doing business/learn a language/expand skills (provided this is associated with Asia).
• As a result of laws and regulations in Asia, PP may need to change the way they operate locally and staff will be required to change/receive further training.
• More jobs available as the business expands.
• High turnover of staff, placing burden on existing employees to train new staff.

Possible model answer:
It will negatively impact local employees as there will be a loss of local jobs. Retrenchment may be considered for existing employees as there is no work available. Retrenchment may result in financial instability for workers as they will lose their source of income. Retrenchment can cause negative emotions for staff, and therefore a higher rate of mental illness and lower quality of life.

Some suggestions for local community:
• Loss of income for other local businesses due to the loss of wages associated with unemployment
• Loss of employment opportunities/rising unemployment rates
• Resentment within the community
• Local community pleased as manufacturing and transport may be disruptive
• Less economic activity in the community.
• Increased cost of product within the Tasmanian community.
• Product becomes more expensive locally (due to demand in other countries)
• Product may take off in Korean market, causing further demand and therefore PP will need to increase production. As PP increases production they will need more raw materials (vegetables) which:
  • May further draw on the limited supply for other local users of vegetables—causing a decline in production for those industries and job loss etc.
  • Expand on employment and benefit community with increased jobs.

Possible model answer:
Increasing unemployment may lead to higher dependence on the government for financial and housing assistance as individuals are unable to support their families. This may create an economic downturn in the local area as the community have less income and will spend less, thereby reducing the sales and profits of the local businesses. There will also be an increase in job seekers, putting pressure on local businesses and community services (such as Red Cross, Smith Family.)

(iv) Any one of TQM, quality improvement, quality assurance or quality control. Need to discuss the nature of the approach.

One mark for identifying (even if implicit in the answer), 3 marks for explaining.

• Creating indoor vegetable gardens to grow vegetables themselves, enabling control over climate and reducing seasonality implications. Business can have better quality control and quality assurance (must emphasise that PP might start their own farming; currently they do not do this, and they might not necessarily choose to do so.)
• Have a TQM program with a manager overseeing the vegetable growing/storing conditions (e.g. air conditioning) to limit returns and increase the brand’s reputation for selling a quality product.
• The response ‘Move vegetable farms elsewhere to improve seasonal conditions which are currently impacting on the quality of output’ was given a maximum of 2 marks as this is not a valid answer: PP do not currently actually have their own farms.
• Free samples/free bottles per x amount purchased.
• Tasting bar in retail stores to attract potential market—trying & buying. (N.B. PP do not have their own retail stores, so this would need to be organised with their retail outlets.)

Possible model answer:

Regularly and carefully inspect all vegetables that are coming to them. Measure the quality of the vegetables and intervene when there is poor produce. This is quality control. This would ensure that they get only the best possible produce, which would be good for a boutique business. Higher quality would also be a point of product differentiation, which would boost both the customer experience and sales.

Introduce a quality management system such as quality assurance. Quality assurance is a set of standards concerning quality that a product must meet prior to being sold to the market. This will increase quality by ensuring products are up to customer standards and meet expectations, thus reducing the number of sales returns. It will also give the business an ‘edge’ over competitors if they continue to increase and improve their quality.

(v) Issues relating to potential lower workplace regulation offshore; perhaps child labour/forced labour, poor working conditions, low wage environment, attempting to avoid stringent conditions of manufacturing in Australia (e.g. around waste disposal). Issue of not supporting local workers.
• Community involvement—staying in Tasmania or outsourcing some business functions.
• NB: ‘Language barriers’ is not an ethical consideration!

(0.5 marks for identifying, 1.5 marks for explaining. Two considerations needed to get the full four marks.)

Possible model answers:

PP would need to ensure that the foreign workers are paid at the appropriate rates. They need to work in acceptable working conditions and receive proper breaks and overtime. PP would need to ensure that the employees are treated fairly. If PP did not do this, then they could be reprimanded in Australia as well as face a negative backlash from the community, damaging the business’ image.

(vi) Price strategy could include:

• Price skimming, premium pricing to take advantage of newness of product
• Penetration pricing to gain market share for new product. However, this is not really valid option at the introduction stage of the product life cycle if there are no other competitors, so this answer was not given full marks unless the student was very clear about assuming competitors are already in the market.

No marks for pricing method—must be an appropriate price strategy.

An appropriate promotion strategy is one intended to increase knowledge of a product and may include mass advertising, online promotion, personal selling/direct marketing through product sample promotion, and PR articles in cooking/lifestyle publications.

Magic words in this question: Increase or gain market share!

Promotion strategies include:
1 mark for identifying, 2 for explaining \( x \times 2 = 6 \) marks. Must have ONE of each (price strategy and promotion strategy). No reward/extra marks for multiple answers within each category.

- Must be a promotion strategy, not a product/positioning strategy.
- Answers must be appropriate for early in the product lifecycle.
- ‘Offering a discount’ is not a promotion strategy.
- Many students referred to ‘Above the line’ and ‘Below the line’ advertising, but a number of them confused the two concepts. Candidates are reminded that this is not in the Syllabus. If they do use it in their answer, they must use it accurately: ‘Above the line’ = print ads, TV, radio, billboards. ‘Below the line’ = Social Media Advertising, search engine marketing, PR, events.
- Needed to be an appropriate strategy for Kimchi: a new product to many consumers in Australia. Had to incorporate the needs of a consumer who might not know about the product, how the strategy would attract them and why it is a relevant option in the answer for full marks. E.g. if a student used ‘relationship marketing’ as their strategy, they needed to outline where they would locate the customer and how they would create the relationship with the customer.