

ASSESSMENT REPORT 2020

BST315116 – BUSINESS STUDIES

SECTION A

Criterion 5

Students only had two opportunities to respond to Criteria 5 in Part A, as compared to four in previous years. There was, however, more scaffolding (e.g. two part questions) than in previous years to assist students with these questions.

Students who read and understood the question, and who constructed fluent responses including the appropriate course content, achieved a better result. Structuring answers to clearly address all the requirements of each question, and to ensure clarity of meaning was also important. Students should pay careful attention, when reading questions, to details such as the number of examples and the number of items to discuss (e.g. implications, business types, strategies) as marking schemes are based around the directions given in each question.

There was a high level of moderation and quality assurance from markers, including discrepancy marking, in the marking of Criterion 5.

Question 1

- (a) This question was very straight forward, and most students answered this well – identifying an industry sector and providing an example of each. The majority of students scored 4/4. There were just a few students who confused sectors for business ownership or business size.
- (b) Students demonstrated a good understanding of incorporated and unincorporated businesses. There were a few students who did not provide a definition of ‘incorporated’ and only said that “incorporated businesses are private and public companies”. While this is true, a definition of what it means to be incorporated is what we were looking for, followed by “examples include private and public companies”.

Question 2

This was a popular question with approximately 50% of candidates answering it. Unfortunately, many students answered in terms of marketing or finance rather than operations. As well, a significant number of candidates explained both product and location instead of choosing one or the other.

- (a) Many candidates restated the question in their answer, with many also explaining what an internal influence is and why product and location are internal influences, which wasn't required. Stronger responses provided a clear example which they tied to their discussion of the impacts. More students chose to respond about location and those who did generally provided stronger responses.

Overall, this question was poorly answered. The main issues related to:

- Students explained both product and location instead of choosing one or the other.
 - Students wasted time restating the question in their answer and spent time explaining why product and location are internal influences, which wasn't required.
 - Some students failed to provide an example.
 - Fewer students chose to talk about product than location. Many students who chose product focused on its impacts in terms of marketing and finance instead of operations.
 - More students chose location and those who did generally provided stronger responses.
 - Many students only discussed one implication rather than implications as the question asked. Students should read questions carefully and ensure that they understand what is required before framing a response.
- (b) Overall part (b) was answered better than part (a). Stronger responses explained that the economic cycle is a fluctuation in the level of general economic activity over a period and related this to their explanation of the two ways businesses are affected by upswings and downturns.

Approximately $\frac{1}{4}$ of candidates who answered this question explained the product life cycle rather than the economic cycle.

Most students were able to outline ways a business is affected by an upswing and a downturn with many candidates receiving full marks for that part of the question.

Question 3

- (a) CSR was generally well defined and explained, ethics was not. Very few students were able to satisfactorily link the two together, establish how the two concepts interacted or how they were different.
- (b) Responses which attracted higher marks included three distinct benefits followed by a clear and thorough explanation of each benefit. Two to three sentences on each benefit in a paragraph structure was ideal. Students who listed a multitude of benefits without explanation were not able to achieve high marks, as the question called for just three benefits – and a description of each one. Well-structured answers, where the benefit and description were provided in a paragraph structure, tended to rate more highly in Criterion 5.

Question 4

This was the most popular question in Section A (close to 95% of candidates chose to respond to this question) given it was more general in nature, and did not require very specific knowledge of operations management, unlike Questions 5 and 6.

- (a) Better answers mentioned that the transformation process involves physical changes to several inputs for the purpose of producing outputs. Very few students were able to define what the transformation process was, but most were able to provide a relevant example. Responses which correctly related the example to the transformation process gained better marks.

Some candidates confused this question with the decline phase of the product life cycle. Some candidates used obscure examples.

- (b) Most candidates provided correct strategies to increase efficiencies. Better answers included operations strategies like profit maximisation and reducing the costs of production. When providing an example, it was important to explain specifically how this strategy would increase efficiency, such as reducing waste which

reduces costs of production and therefore increases profit. Most efficiencies can be measured in increased output through productivity gains and decreased costs of production, all measurable in dollar terms as well as other goals such as reducing waste, increasing staff and customer satisfaction, etc.

Generally, 4(b) was not well done, there were very few well written 'stand-out' answers – fewer still linked increases in efficiency back to the question or explained how these efficiencies were obtained.

Question 5

- (a) Generally, not well done but very few students chose this question. Students struggled with the difference between operational and strategic decisions.
- (b) When answering 5(b), students tended to discuss more strategic decisions rather than operational.

Question 6

This was a more challenging question which required knowledge of specific aspects of ethical and legal issues impacting business.

- (a) Most candidates were able to describe what intellectual property (IP) is, and better answers provided reasons why IP (whether a patent or copyright) gives firms a competitive advantage which may mean that they are able to charge a higher price or have a cost advantage (e.g. patented processes which increase efficiency in production or distribution). If other firms wished to use their IP, then they would pay for the right to reproduce it.
- (b) Most candidates struggled to describe what deskilling is, despite it being listed in the course document under operations management, and so explicitly taught by all teachers of Business Studies as part of this unit. Better answers related the benefit and issue with the achievement of operational goals such as increased productivity and efficiencies which translates into higher profits.

SECTION B

It was found that Criteria 3 answers often lacked evidence that students were addressing the criterion "evaluate potential issues". Some students are re-writing large parts from the stimulus word for word without adding any new information or business terminology and it is difficult for markers to award marks in this situation.

It is also common for students to give a generic answer about a topic and not link their answer back to the stimulus. Offering a textbook definition of a concept alone will not attract full marks without providing a link back to the stimulus material and students demonstrating an understanding of how their knowledge of business concepts can be applied to the business in the stimulus material.

Few students referred to the financial data that was provided in the stimulus and this would have shown higher level answers when answering questions about business performance. Answers would have been much enhanced if business performance as shown in the financial figures had been mentioned.

Many students when asked to link answers together and discuss potential outcomes of their suggestions from a previous answer are not doing so and providing new, standalone answers that do not link to their previous suggestions. Students need to show that they are attempting to make this link in order to maximise their chance of being awarded full marks on a question.

(e.g. Question 9 (f) How will the strategies you developed in (e) impact business performance in the short and long term?)

SECTION C

Part A

- (i) The SWOT analysis proved to be challenging for many students. There was confusion between Strengths and Opportunities, and Weaknesses and Threats. Many students did not link 'Opportunities' to events in the business environment / stimulus. There were many one- or two-word answers, or answers which lacked clarity. Students did not use the financial information, which formed part of the stimulus, effectively to provide additional information for this question. Many students missed that the business already had engaged in online sales.
- (ii)- (iv) Students used the boxes provided to indicate which S, W, O or T they were responding to, and this worked quite well. Most students were able to explain at least for half marks how they would address issues from the SWOT analysis. Some students simply repeated what they had said in the SWOT in a different form e.g. take advantage of opportunity to refurbish upstairs by refurbishing upstairs. take advantage of refurbishing upstairs to hire these facilities for private music tuition, increasing cash inflow for the business with this additional source of revenue.

Part B

- (i) – (iii) The accuracy of calculations of ratios was high but, in several cases, there was an absence of units (such as %) and some random rounding of figures. Some students rounded and some students calculated to two decimal places.

For the current ratio, the formula sheet does not specify whether students should round or just calculate to two decimal places so there were a variety of answers.

- (iv)-(vi) Many students provided a generic comment instead of using trends, figures or an industry average comparison and part answers were common. A whole range of answers were provided for these questions.

A number of students misidentified a low gearing ratio as indicating 'low financial stability.' Some students correctly identified a low gearing ratio as highly stable but then went on to say that this was 'no good' as it was a wasted opportunity and that the business should borrow more money. This is an odd comment given the current business environment and the number of businesses who are going to the wall due to high borrowings and not enough revenue to service their debt.

- (vii) Typically, two generic trends were identified, sometimes without using the trend, figures or overall impact on the cash budget balance. Also, some students misread the question to link to balance sheet or income statement.

A number of students mentioned profit, which will not attract marks in a cash budget question.

Part C

(i) Contribution margin

A very low percentage of students attempted this sub-question in Part C. Some tried to calculate the contribution margin ratio which is not a part of this course. There was a minimal understanding of what the contribution margin calculation means. This was a surprise to markers, given calculation of the contribution margin is included in the standard elements of Criterion 2.

(ii) – (iii) – (iv) Break even

Some great answering of units for break-even analysis but several students missed the sales dollars section of these questions. Also, some answers were missing units and/or did not round up to the next full unit.

A number of students had no idea how to calculate break-even point. This was a surprise to markers, given calculation of break-even point in units and sales dollars is included in the standard elements of criterion 2. Some of the answers received for this sub-question were so odd that there was concern among markers that some students may not have been taught breakeven in 2020.

A significant number of students missed the sales dollars calculation. If a student missed the sales dollars answer for all three break-even calculations, they went from an A to a B for break-even. Some students calculated the sales dollars with a sales price of \$13 (the contribution margin?). Again, a student who did this went from an A to a B. Some students calculated the sales dollars figure with the unrounded units figure – and got an incorrect dollars of sales figure.

Students often correctly calculated break-even and then stated that the 1576.9 or 1577 was the sales dollars break-even figure and then divided/multiplied by \$15 to get units of sales. Even students who were able to calculate the basic break-even problem often didn't know that they needed to add the desired profit to fixed costs. There were some really odd answers where students tried to calculate break-even with a contribution margin ratio (not in the course) – and did not arrive at the same answers as the regular equation.

Part C sub-question (ii) and (iv) were more thoroughly answered than (i) and (iii). Even if students were not able to add desired profit to fixed costs, they were able to recalculate break-even with the increased fixed costs.

Part D

- (i) Students did not use this more open-ended question to their advantage to illustrate what they knew about competitive advantage, and how it works. Many students outlined unsuitable strategies, or simply repeated word for word parts of the stimulus. Some students seemed confused about the cost leadership approach, not realising that this is not always about the lowest price – but the lowest costs (to improve profit margin). Some students discussed unique selling points and product differentiation purely from a marketing perspective.
- (ii) This question was not done well by many students. Most explained strategies to improve business performance, often repeating things which they had said earlier in this question, and only vague objectives or goals.
- (iii) Many students focused on the negatives for staff in this question, things like noise pollution and disruption from the refurbishments. Most students did not provide enough detail, or two distinct impacts, and so were unable to achieve full marks.
- (iv) Most students were able to achieve 1-1.5 marks for this question, but a minority of students managed to link their strategy to improved business performance. The term 'corporate citizenship' may have confused some students. Better answers had a strategy which benefitted the community or society (& went above and beyond what is legally required of the business), and a full explanation as to how that would improve business performance.

SUGGESTED ANSWERS

SECTION A

Part 1 - The Business Environment

Question 1

- (a) Businesses can be classified by sector depending on the type of activity they undertake. Describe **TWO** sectors and identify at least **ONE** example for each sector. (2 + 2 = 4 marks)

Marking scheme: 1 mark for each sector description, 1 mark for each example.

Students were expected to discuss Industry sectors – Primary, Secondary, Tertiary, Quaternary or Quinary. Some students may choose to describe Public, Private or Community sectors and this would be acceptable (focus on sector rather than industry).

Possible answers:

A definition of industry or sector is not required – however, an industry consists of businesses that are involved in similar types of production.

Primary industry/sector includes those businesses involved in the collection of natural resources. Examples of these businesses include all types of farming, mining, fishing, grazing and forestry.

Secondary industry/sector involves taking a raw material and making it into a finished or semi-finished product. For example, iron ore, coal and limestone are turned into steel — a semi-finished product that is then used to manufacture cars. Steel and car manufacturers are both examples of secondary industry businesses.

Tertiary industry/sector involves people performing a vast range of services for other people. Examples include retailers, transport, entertainment, and health services.

Quaternary industry/sector includes services that involve the transfer and processing of information and knowledge. Examples include telecommunication, property, computing, finance, and education.

Quinary industry/sector includes all services that have traditionally been performed in the home. Examples include hospitality, tourism, craft-based activities, and childcare. It includes both paid and unpaid work.

- (b) Explain the term incorporated. Describe **ONE** unincorporated legal structure and its features. (2 + 4 = 6 marks)

Marking scheme: 2 marks for full explanation of the term incorporated. 4 marks for identification of an unincorporated legal structure and description of its features. This may include naming the legal structure plus 3 brief features or a more detailed description of 2 main features of the structure.

Possible answers:

The term **incorporated** refers to the process companies go through to become a separate legal entity from the owner/s. This means the business exists in its own right, its own legal entity. Regardless of what happens to individual owners (shareholders) of the company, the business continues to operate. Unincorporated business entities include sole traders and partnerships.

A **sole trader** is a business that is owned and operated by one person. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions, and takes all the responsibility for the operation of the business. Features of this legal structure may include:

- Owner is responsible for all decisions and has complete control / responsibility,
- Inexpensive business structure.
- All profits (or losses) belong to the owner.
- Owner may offset business losses against other income.
- Owner is personally liable (unlimited liability) which means personal assets may be at risk.
- Owner needs to function in all roles across the business (unless hiring staff).

A **partnership** is a legal business structure that is owned and operated by between two and 20 people with the aim of making a profit. Features of this legal structure may include:

- Deed of Partnership.
- Responsibility of running the business is shared (control also shared).
- Ability to raise finance is enhanced; could take on additional partners.
- Establishment costs are low (compared with setting up a company).
- Each partner can specialise in one area of the business e.g. accounts or marketing.
- Tax obligations may be minimised / split.
- Partners have unlimited liability.
- Partners may be responsible for debts incurred by another partner.
- If a partner dies the business still exists and remaining partners are responsible.
- No one person has complete control, decision making is shared (disagreements / delays in decision-making possible as a result).
- Availability of capital is restricted (compared to a company).

Question 2

- (a) Product and location are both internal influences on business. Using ONE example, briefly explain how product OR location impacts the operation of a business. (4 marks)

Marking scheme: For full marks an example needs to be included as part of the response. Responses may include 4 brief impacts on the operation of a business or at least 2 detailed impacts. So 1 mark x 4 or 2 marks x 2.

Product – type of good or service which the business produces / provides:

- Impacts internal operations in terms of physical space required, raw materials required, processes required to produce good/service. Size and range of goods/services have an impact. E.g. sofa manufacturer vs mobile gardening service.
- Type of business (e.g. service, retailer, manufacturer) impacted due to requirements around the provision of different products e.g. Iron ore production vs Sneaker retailer.
- Size of business could be impacted as well. This may relate to numbers of staff, volume of product, geographical locations. E.g. café vs hotel.
- Use of technology e.g. market stall selling leather goods vs IT company.
- Production method (batch, continuous, made to order) e.g. bespoke jewelry vs jars of vegemite vs lobster fishing (perishable goods).

Location – choice of location for business.

- Locating next to a complementary business may be beneficial.
- Impacts sales and profit if lack of foot traffic (passing trade), no parking, wrong location.
- High visibility beneficial to business, improve sales, reduce need for promotion. If poor visibility additional marketing may be required.
- Some locations are associated with higher costs (rent, etc.). This increases expenses for a business (though may be offset by being a profitable location).
- Location may be less significant to some businesses who utilise technology to connect with customers and provide their product.
- Proximity to suppliers is impactful for business. If suppliers are close this may reduce transport costs and ensure that the business is able to respond in a timely manner to changes in the business environment. They may even have better quality control.
- Proximity to customers impacts business sales and profit.
- Proximity to support services and infrastructure / utilities.
- Proximity to human resources (employees) – impacts on availability and recruitment of new staff, skill sets which candidates for positions may possess.

(b) Explain the economic cycle. Outline **TWO** ways a business may be affected by an upswing and **TWO** ways a business may be affected by a downturn. (2 + 2 + 2 = 6 marks)

Marking scheme: 2 marks for economic cycle explanation, 1 mark each for effect on business (of upswing, downturn) (2+2+2= 6 marks)

Economic cycles (or business cycles) are the periods of growth ('boom', high economic activity) and recession ('bust', low economic activity) that occur because of fluctuations in the general level of economic activity. After a period of prosperity, business activity gradually slows until a recession or depression is reached. Eventually, business picks up again until prosperity is restored. This completes the cycle. These cycles are a basic feature of our economic system.

The diagram below outlines the effects of an upswing (recovery) and a recession (downturn) on business.

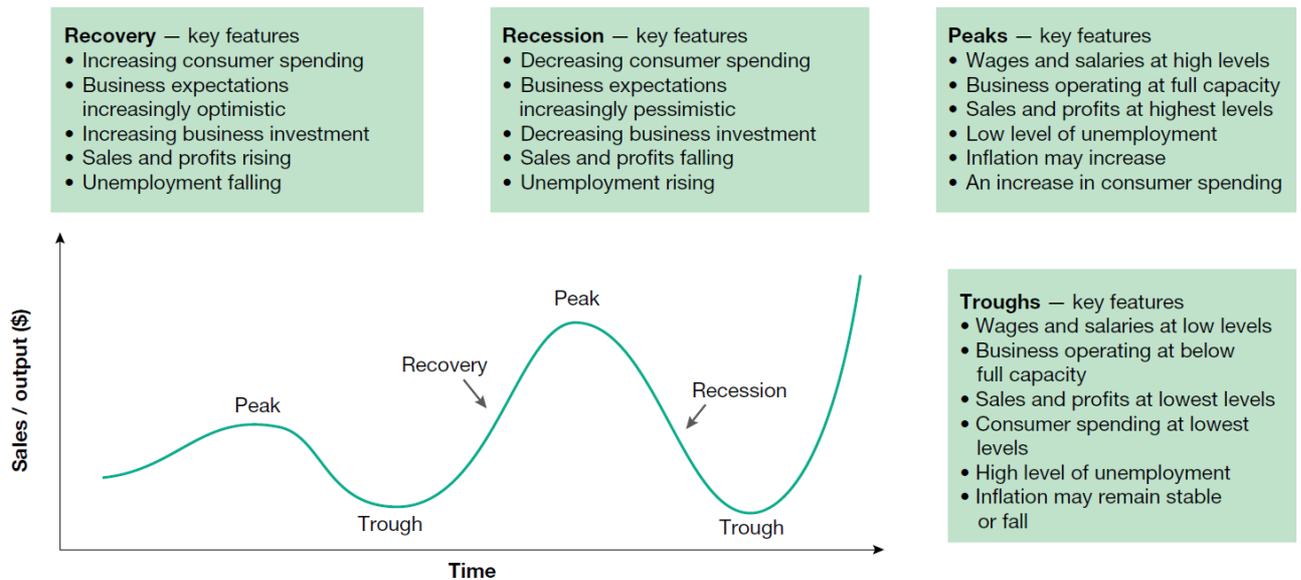


FIGURE 3.4 The economic or business cycle

Question 3

- (a) Explain corporate social responsibility and distinguish it from business ethics. (2 + 2 = 4 marks)
Marking scheme: Responses should distinguish each term from the other while defining both. 2 marks are allocated to discussion of each term which addresses the intent of the question.

Corporate social responsibility challenges each business to be accountable for the consequences of its actions. This means businesses must consider effects on all stakeholders while pursuing traditional economic goals.

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. It should try to be a good corporate citizen. (e.g. consider the social and environmental implications of its actions). CSR may also involve the business going beyond what is legally required of them (WH&S, Fair Work, Environmental Protection, ACCC, and so on) to be regarded as good corporate citizens.

Business ethics is the application of moral standards to business behaviour. Ethics are standards that define what is acceptable and unacceptable behaviour.

Ethical behaviour is following a set of rules or procedures fairly, the rules being designed to set principles of rightness and correctness. Ethics is a set of standards that all can agree on and follow to regulate behaviour.

- (b) Describe **THREE** ways in which a more entrepreneurial society benefits us all. (2 + 2 + 2 = 6 marks)
Marking scheme: 2 marks for each benefit (1 mark for naming and 1 for explaining = 2 marks each)

An entrepreneurial society benefits us all by:

- increasing competition in the marketplace / business environment
- keeping prices down due to competition
- innovation which improves products / offers new products or processes
- creating employment and economic activity
- increasing choices for customers due to competition, innovation
- creating better, more sustainable ways of doing business.

PART 2 – OPERATIONS MANAGEMENT

Question 4

- (a) Using ONE example, explain the transformation process of a particular good or service. (4 marks)

Marking scheme: For full marks an example needs to be included as part of the response. Markers are looking for a description of the transformation process applied to a specific good or service (product). There are 1-2 marks available for discussion of inputs & final output, and 2-3 marks for discussion of the transformation of those inputs into the output up to a maximum of 4 marks. Students may have chosen to annotate a flow chart such as the one below or write in paragraph format.

The main concept of operations management is transformation, which is the conversion of inputs (resources) into outputs (goods or services). The term 'transformation' implies physical changes, but today it also includes the conversion of resources into services. Students may mention elaborately transformed manufactures (ETMs) e.g. car, simply transformed manufactures (STMs) e.g. rolled sheet metal – but this is not required.

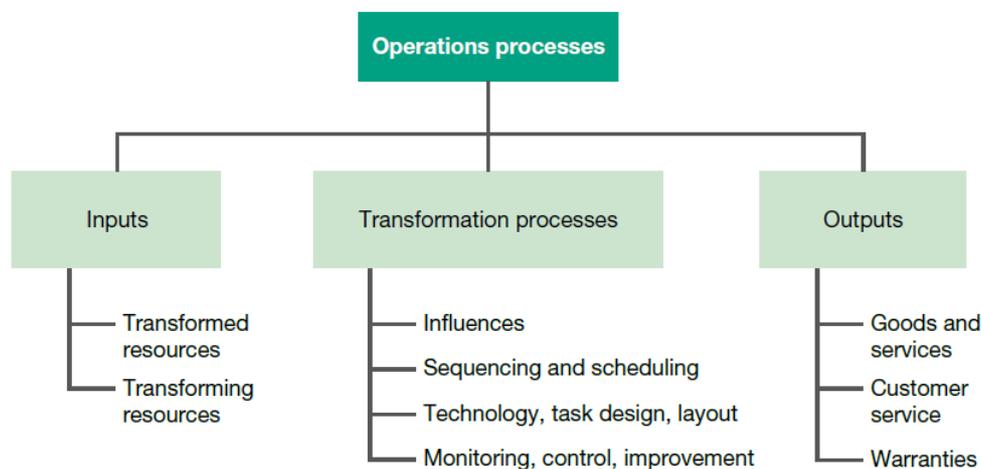


FIGURE 3.2 An overview of operations processes

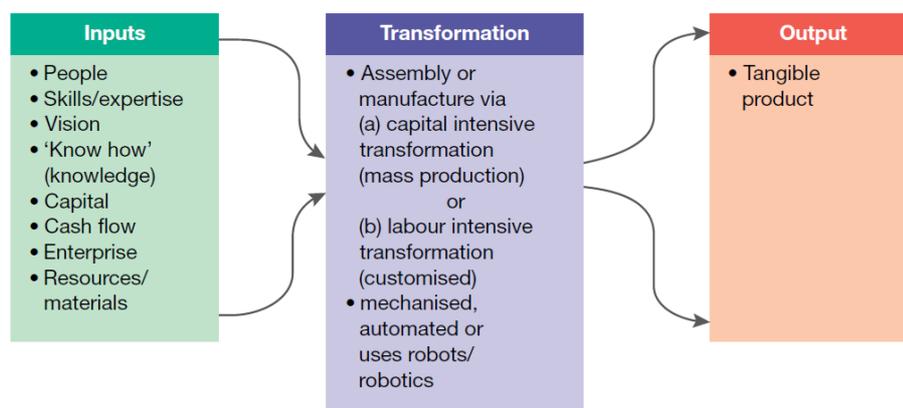


FIGURE 8.9 Operations in the manufacturing process

- (b) Explain why efficiency is a goal of operations management and **TWO** ways in which efficiency can be achieved through operations management. (2 + 2 + 2 = 6 marks)

Marking scheme: 2 marks for explanation of why efficiency is a goal for operations management, 2 marks for each way that efficiency can be achieved. This question asks for TWO ways – so students should look at 2 ideas / strategies in depth rather than listing a number of strategies. The best responses will directly link each strategy / idea to efficiency (explaining how each strategy achieves efficiency in operations).

Efficiency is a goal of operations management because:

- Maximise profit through being as efficient as possible
- Sustainable practices, reduction of waste a priority
- Increased efficiency = Increased profit margin
- Pursuit of cost leadership strategy for competitive advantage

Ways in which efficiency can be achieved through operations management include:

- use of technology
- supplier rationalisation
- cost minimisation (keep expenses low, sourcing cheaper suppliers)
- just in time inventory control
- reduction of waste
- improving productivity (increasing output as a ratio of inputs, increasing speed of production)
- improving quality management / control (reduce waste)
- outsourcing
- improving product design / production processes
- using economies of scale
- research and development (e.g. improving production processes, innovation)
- product standardisation.

Question 5

- (a) Distinguish between operational and strategic decisions. (2 + 2 = 4 marks)

Marking scheme: Responses should distinguish each term from the other while defining both.

Operational decisions	Strategic decisions
<ul style="list-style-type: none"> • Decisions around short-term goals & objectives, often taken repetitively • Relate to the execution of specific daily tasks or weekly projects / processes • Do not require a high level of business judgement / evaluation • Usually specific to one area of the business • Must reflect operations strategy to achieve corporate objectives 	<ul style="list-style-type: none"> • Decisions around longer-term goals & objectives • Relate to the 'big picture', strategic direction of the business • Require a high level of business judgement / evaluation • May impact the whole business • Influenced by & implemented through operations management <u>BUT</u> may be difficult to translate into operational management

From the course document:

- Operational decisions – purchasing, dispatching, inventory control, planning and scheduling, maintenance and quality control involving planning, developing, and the use of established and leading-edge technology
- Strategic decisions – planning, developing, and controlling the activities required to create a product and supply a service. Strategic decisions and planning for the use of established and leading-edge technology

- (b) Identify and describe **THREE** areas of **operational** decision-making. (2 + 2 + 2 = 6 marks)

Marking scheme: 2 marks for each description of operational decision-making (1 for identifying, 1 for describing = 2 marks each)

Students should discuss any three of the operational decisions outlined above in the course document:

- purchasing
- dispatching
- inventory control
- planning and scheduling
- maintenance
- quality control
- use of established and leading-edge technology.

Question 6

- (a) Briefly explain the legal concept of intellectual property and why it is vital to business operations. (2 + 2 = 4 marks)

Marking scheme: as per marking guide above, 2 marks for each component of the question, with adequate detail.

From Intellectual Property Australia –

- Intellectual property (IP) is the property of your mind or proprietary knowledge. Basically, the productive new ideas you create. It can be an invention, trademark, design, brand, or the application of your idea.
- Intellectual property also includes patents, trademarks, registered designs, plant breeders' rights, Geographical indications (identifies where a good comes from e.g. Scotch Whisky), copyright, trade secrets and other confidential information.
- Businesses need to; identify their IP, understand the different types, keep it confidential, protect ideas or brands by registering them, be cautious when commercialising (have confidentiality agreements in place, lodge patents early), track your costs to help value your IP, research your market, use business skills & strategy to achieve success, keep alert for infringements of your IP.
- Maintaining IP protects business interests and allows a business to be more profitable / competitive
- IP is the result of investment by the business and has therefore cost the business money. It is also of value since it can be leveraged to generate productivity / profit.

- (b) Define deskilling. Explain **ONE** benefit and **ONE** potential issue associated with this operations management strategy. (2 + 2 + 2 = 6 marks)

Marking scheme: 2 marks each for definition, benefit and issue. For 2 marks students must include a full answer / a level of detail.

Deskilling is the reduction in the level of skill required to carry out a job (making workers skills obsolete), often for the purposes of automation.

Benefits include:

- reduces expenses / costs
- allows business to compete more effectively
- may increase service efficiency (e.g. self-serve checkouts)
- possible increased productivity.

Potential issues include:

- loss of work for employees
- less satisfying work for employees (no skills required)
- reduced wages and/or hours for employees
- redundancy
- impact on local communities, business reputation.

SECTION B

Question 7 (Marketing Management)

Parts (a) to (c) assess Criteria 3

(20 marks per question)

(a) Evaluate potential issues for *The Plant Lady* in terms of: (12 marks)

Marking scheme: 3 marks for each of the below headings.

Students needed to identify a relevant issue and evaluate how the issue would affect The Plant Lady's Business.

(i) *Identification of more than one target market*

- Business has 3 customer types (gifts, corporate, individual) and some analysis. E.g. a large and diverse target market could mean that not all customers are reached, a negative online review might lead to loss of business; corporate customers don't pay straight away so might affect cash flows.
- No evidence that the business is specifically targeting any of these groups with their marketing strategies, and the time needed to promote into each market is a potential issue.
- Targeting several markets simultaneously can be more costly, challenging as it is difficult to appeal to multiple target markets due to them having different and/or conflicting needs/wants.

(ii) *Appropriateness and adequacy of promotional strategies*

- Limited promotional strategies with a focus on web and social media based strategies.
- The Plant Lady may wish to explore some other promotional strategies e.g. radio, print, TV.
- The Plant Lady has a social media presence – is this targeting all segments of the target market?
- She is only updating her website once a week and this may not be often enough.

(iii) *Place strategies (distribution channels)*

- Location and times offered to pick up purchases may be inconvenient for people who work or don't have own transport i.e. Northern Suburbs of Hobart between 3-5p.m. only.
- Online ordering only – cannot see products in person prior to purchase.
- Deliveries could be time consuming, expensive (i.e. staff time, fuel, vehicle running costs) and logistically difficult during peak times.
- Potential logistical issues of people collecting large plants or having them delivered which may require two people or a large delivery vehicle.

(iv) *Establishing brand recognition and loyalty*

- Availability of branded merchandise may contribute to brand recognition and loyalty.
- Social media presence needs to be well managed and done well to be an effective way to build brand recognition.
- Issue of diseased plants leading to a negative reputation and poor online reviews if problem not quickly fixed.
- Business mainly used for gift purchases so less likely the recipients will be returning customers.

- (b) For ONE of the issues above critically analyse the cause of this business issue and its impact on business performance. (3+3 = 6 marks)

Marking scheme: 3 marks for discussion of the issue and its cause, 3 marks for explanation of impact on business performance.

Answers will depend on student responses in (a) and the issue chosen.

- (c) Outline the impact of the marketing issues you have discussed on ONE stakeholder of your choice. (2 marks)

Marking scheme: 1 impact explained in detail or 2 or more impacts in less detail

Answers will depend on student responses in (a) & (b) and the issue chosen.

Parts (d) to (g) assess Criteria 4

(15 marks per question)

- (d) Explain ONE pricing strategy OR ONE pricing method appropriate for The Plant Lady and justify your choice. (3 marks)

Marking scheme: 1 mark for strategy or method, 1 mark for explanation of strategy/method, 1 mark for justification.

Pricing strategies

- Bundle pricing is where customers gain a 'package' of goods and services in addition to the tangible good they purchased.
- Prestige or Premium pricing (price skimming) is a pricing strategy where a high price is charged to give the product an aura of quality and status. Appeals to status-conscious consumers.
- Price penetration was accepted only if there was a clear explanation and justification. How a student interpreted the fact that the question stated 'no competition' made this reason tenuous given that price penetration is only really used when there is lots of competitors and a new business is attempting to break into the market.
- Loss leader was given marks if it was clearly explained re: taking a 'hit' on watering cans/plant food etc, but inflating the price on the plants themselves.

Pricing methods

- Market-based pricing is a method of setting prices according to the interaction between the levels of supply and demand — whatever the market is prepared to pay.
- Competition-based pricing is where the price covers costs (cost of raw materials and the cost of operating the business) and is comparable to the competitor's price. But slightly above competitors. This part was problematic as the question stated no other business delivers live plants

- (e) Recommend ONE product and ONE promotional strategy to improve the brand recognition of *The Plant Lady*. (2 + 2 = 4 marks)

Marking scheme: 1 mark each for naming, additional 2 marks for full explanation

Product strategies

- design a logo or symbol that is eye-catching and use on each product
- develop packaging that utilises The Plant Lady brand
- select a signature colour which could be associated with the brand name and/or logo
- cross branding with a more well know brand
- labelling which promotes local business angle / local production

Promotional strategies

Discuss any of advertising, sales promotion, publicity PR, personal selling, relationship marketing, online or direct marketing

- create the YouTube channel Zara has been considering
- utilise radio, print or TV media in conjunction with a brand/logo
- pamphlets / flyers or catalogues with brand logo
- loyalty scheme
- consider sustainable practices / corporate social responsibility & publicise these efforts
- celebrity endorsement or spokesperson (promotional PR)

- (f) How will the strategies you developed in (e) impact business performance in the short and long term? (4 marks)

Marking scheme: 1 mark per impact, 2 marks for short term, 2 marks for long term impacts (break down in short and long term)

Short term (up to 12 months)

- improve brand recognition, loyalty
- profits may decrease in the short term due to extra money being spent on marketing

Long Term (longer than 12 months)

- increase sales, repeat customers, broaden customer base
- improvement in profit, financial stability, cash flow

Note: Some cross over of answers was accepted. E.g. increase sales can be both short term and long term.

- (g) Explain how customers and competitors will be impacted by your recommendations. (4 marks)

Marking scheme: 2 marks per stakeholder.

Answers will depend on student recommendations.

Question 8 (Financial Management)

Parts (a) to (c) assess Criteria 3

(20 marks per question)

(a) Evaluate the business performance of The Plant Lady in terms of: (12 marks)

Marking scheme: 3 marks for each of the below sections

(i) *Profitability (3 marks)*

- Gross profit ratio decreased from 85% in 2018 to 80% in 2020.
- Gross profit now below industry average of 83%
- Net profit ratio decreased from 71.39% to 46.40% in 2020.
- Net profit now below the industry average of 50%
- Rate of return on owners equity remains above the industry average of 35% despite falling from 151.71% in 2018 to 59.32% in 2020.
- Expenses have significantly increased from \$17 960 in 2018 to \$72 563 in 2020 – mainly due to salaries increasing from \$5 000 to \$54 000.
- Profitability has deteriorated which has had the following impact on business performance...
- For 3 marks, students needed to discuss at least 2 of the profitability ratios as well as the movement in the ratio and comparison to industry average. Figures needed to be quoted from the stimulus.
- For 2 marks students needed to identify 1 correct ratio and make a comparison to industry and an interpretation in the movement compared to industry averages.
- No marks were given for just defining a ratio.
- Maximum of 1 mark was given for referring just to profit and loss and not to profitability ratios (with or without references to \$ amounts).

(ii) *Financial stability (solvency) (3 marks)*

- Gearing ratio has fallen from 86.33% in 2018 to under the industry average of 75% at 34.15% in 2020. (1 mark)
- Financial stability has improved. (1 mark)
- The business is not utilising external funds to generate profit, a missed opportunity. (1 mark)
- Reduction of debt within the business.
- Potential to expand the business.

(iii) *Liquidity (3 marks)*

- Current ratio is well above the industry average of 2:1 having increased from 2.85:1 in 2018 to 5.88:1 in 2020. (1 mark)
- The business has a significant amount of current assets, compared to current liabilities. (1 mark)
- Cash at bank has increased significantly from 2018 to 2020. (1 mark)
- The business is not using its large cash reserves to generate further profit or improve business performance which may be a poor use of the cash reserve.

(iv) *Efficiency (3 marks)*

- Debtors collection period has increased from 48.85 days to 58.08 days between 2018 and 2020. Debtors collection period is above the industry average of 42.60 days. (1 mark)
- This is a deterioration, particularly in light of the 30 day credit terms. (1 mark)
- The Plant Lady is not managing accounts receivable effectively, and this may have negative impacts. (1 mark)

- (b) For ONE of the issues above critically analyse the cause of this business issue and its impact on business performance. Use the financial statements in the stimulus to assist you with your answer. (3+3 = 6 marks)

Marking scheme: 3 marks for discussion of the issue and its cause, 3 marks for explanation of impact on business performance. Students needed to use figures from the stimulus to be awarded full marks.

Answers will depend on student responses in (a) and the issue chosen.

- (c) Outline the impact of the financial issues you have discussed on ONE stakeholder of your choice. (2 marks)

Marking scheme: 1 impact explained in detail or 2 or more impacts in less detail

Answers will depend on student responses in (a) & (b) and the issue chosen.

Parts (d) to (g) assess Criteria 4

(15 marks per question)

- (d) Explain ONE risk which must be mitigated OR ONE obstacle to be overcome if The Plant Lady expands to offer Indoor plant hire at a cost of \$30,000. (3 marks)

Marking scheme: 1 mark for naming, additional 2 marks for full explanation

No marks were awarded if students stated that the \$30k cost was a risk/obstacle, unless, reference to source of finance and cost of debt vs. equity as the risk/obstacle was explained

Risks to be mitigated:

- management of cash flow
- negative impact on financial stability (gearing)
- risk that the investment is not successful and fails to generate additional revenue
- opportunity cost of choosing this strategy compared to the others discussed in the stimulus
- increase in debtors
- reduction in margin
- cost of replacing plants that are not well looked after during hire period, i.e., die
- van – age, capacity – can lead to increase costs
- ongoing costs of the new business.

Obstacles to be overcome:

- sourcing funds (though the business has plenty of cash reserves).

- (e) Recommend **TWO** financial management strategies to improve the profitability of The Plant Lady. (4 marks)

Marking scheme: 2 marks for each strategy (1 for explanation/recommendation, 1 for link to improving profitability)

Strategies to improve profitability:

- increase sales volume and therefore revenue (by various means – extension of promotional strategies, improved brand recognition)
- increase sales price and therefore revenue (e.g. prestige / premium pricing, target market segment with high disposable income)
- decrease expenses to improve profit margins (negotiate with suppliers, reduce waste) (students can use this strategy twice as long as the 2 examples are very well explained and justified).

- (f) How will the strategies you developed in (e) impact business performance in the short and long term? (4 marks).

Marking scheme: 2 marks per impact (1 mark for the impact and one mark for the short term, 1 mark for the long term impacts (1 impact explained with detail or 2 impacts explained generally))

- improve brand recognition, loyalty
- increase sales, repeat customers, broaden customer base
- improvement in profit, financial stability, cash flow
- make the business more attractive to potential investors (long term)
- increase the competitiveness of the business.

- (g) Briefly explain how the owner and the local community will be impacted by your recommendations. (4 marks) *Marking scheme: 2 marks per stakeholder. (2 + 2 = 4)*

Question 9 – Operations Management

(Parts (a) to (c) assess Criterion 3)

Marking scheme: 3 marks for each of the below

Students needed to identify a relevant issue and evaluate how the issue would affect The Plant Lady's Business.

- (a) Evaluate potential issues for The Plant Lady in terms of:

(i) *Establishing and maintaining a competitive advantage*

- Strong answers discussed issues of establishing a competitive advantage based on cost leadership and product differentiation (from syllabus document) e.g. The Plant Lady seems to have taken a product differentiation approach to competitive advantage. Cost leadership may be more sustainable and easier to maintain.
- Currently The Plant Lady is the only business delivering indoor plants as gifts. When competitors enter the market, The Plant Lady may have difficulties if brand loyalty and brand recognition are not established.
- Should be planning to further differentiate and develop their product over the longer term.
- Quality control issues (imported pots, plant disease) may negatively impact a product differentiation, competitive advantage strategy.

- (ii) *Quality of final product and service*
- potential issues/ risk of quality declining if plant pots are imported
 - plant disease has impacted the reputation of the business, Zara should implement a quarantine system for the plants she purchases from suppliers
 - Zara may be too busy to offer a consistent, quality service
 - train staff to provide a better service
 - lack of Total Quality Management strategies which would help to ensure a consistent, quality product is offered.
- (iii) *Management of demand for products at peak times*
- The business experiences several high demand periods throughout the year. Zara does utilise casual labour to assist with deliveries.
 - The Plant Lady is reliant on external suppliers for 50% of their plant products. Seasonal shortages could impact the ability of the business to meet consumer demands.
 - Scheduling processes should be implemented to ensure enough stock is ready at the right time.
- (iv) *Production efficiency.*
- Answers needed to address how Zara can produce her own items more efficiently rather than discuss buying in final/completed products.
 - May need to address how waste is minimised or by-products of the business disposed of.
 - Diseased plants and poor-quality pots may impact production efficiency and generate waste.
 - Lack of competition in relation to suppliers may mean that the business cannot source the most cost-effective inputs.
 - May need to implement more technology/automate processes such as watering.
 - Introduction of lean production strategies.
 - Implement TQM to reduce waste and minimise potential for diseased plants etc.

- (b) For ONE of the issues above, critically analyse the cause of this business issue and its impact on business performance. (6 marks)

Marking scheme: 3 marks for discussion of the issue and its cause, 3 marks for explanation of impact on business performance

Answers will depend on students' responses in (a) and the issue chosen.

- (c) Outline the impact of the operational issue you have analysed on ONE stakeholder of your choice. (2 marks)

Marking Scheme: 1 impact explained in detail or 2 or more impacts in less detail

Answers will depend on students' responses in (a) and (b) and the issue chosen.

(Parts (d) to (g) assess Criterion 4)

- (d) Explain ONE quality management strategy OR ONE use of technology which would improve the transformation process. (3 marks)

Marking Scheme: 1 mark for naming, additional 2 marks for full explanation

Quality management

- quality assurance
- quality control
- Total Quality Management (TQM)

Use of technology

- could mention established or leading edge technology
- irrigation systems, automated watering
- climate control systems
- software for inventory control systems
- tracking system for processing and delivery of orders
- navigation system for delivery van
- CAD, CAM, MRP (Material Requirement Planning – managing demand fluctuations)
- GM plants, particularly disease resistant – ethical issues may need to be considered however.

- (e) Recommend TWO operational and/or strategic decisions which will increase production efficiency. (4 marks)

Marking scheme: 2 marks per decision (1 mark for explanation/ recommendation, 1 for link to production efficiency)

From the course document/syllabus:

- Operational decisions – purchasing, dispatching, inventory control, planning and scheduling, maintenance and quality control involving planning, developing, and the use of established and leading-edge technology.
- Strategic decisions – planning, developing, and controlling the activities required to create a product and supply a service. Strategic decisions and planning for the use of established and leading-edge technology.

Some other answers included:

- training in innovative plant care practices e.g. faster growth rates, space saving
- employee training in packaging and preparing for distribution
- quality control – product checks, intervention
- processes according to ISO standards

- continuous improvement
- outsource delivery
- planning and scheduling (GANTT charts and CPA)
- economies of scale – e.g. extra greenhouse.

(f) How will the strategies you recommended in (e) impact business performance in the short and long term? (4 marks)

Marking scheme: 1 mark per impact, 2 marks for short term, 2 marks for long term

Short term

- higher training costs
- reduced waste
- less returns
- improved customer satisfaction
- improve brand recognition and loyalty.

Long term

- improved efficiency, competitive advantage
- reduction in costs due to customer satisfaction, e.g. warranty, replacement, refunds
- positive business culture
- reduced waste -> positive environmental impact -> reduced carbon footprint
- improvement in profit, financial stability, cash flow.

(g) Briefly explain how suppliers and employees will be impacted by your recommendations. (4 marks)

Marking scheme – 2 marks per stakeholder

Suppliers

- loss of custom, revenue if low quality (diseased plants) issue not addressed
- opportunity for co-training
- potentially reduced sales if The Plant Lady moves to Just In Time inventory management.

Employees

- increased training
- gain skills
- increased job satisfaction
- better qualifications for future jobs
- experience in Quality Management
- improved morale and sense of job satisfaction.

SECTION C

Part A

(i) Explain **TWO** strengths, **TWO** weaknesses, **TWO** opportunities and **TWO** threats.

(Marking scheme = 1 mark per S, W, O and T, 1.2 mark if detail / explanation lacking = 8 marks)

<p>Strength</p> <ul style="list-style-type: none"> ● own most of the building, very low mortgage ● knowledgeable staff, stable workforce ● product differentiation for competitive advantage already in place ● quality customer service ● owners experienced, 25 years in business ● NCA up, OE up ● strong brand, good reputation as long running business 	<p>Weakness</p> <ul style="list-style-type: none"> ● gross / Net profit both down, ROR down ● sales revenue down 2018 -> 2020 ● costs have increased ● CA down ● liabilities up
<p>Opportunity</p> <ul style="list-style-type: none"> ● consumer demand for instruments is high ● refurbishment of upstairs for music lessons ● extend online store given online retail is in high demand ● favourable government policy / tax cuts 	<p>Threat</p> <ul style="list-style-type: none"> ● competitors with cheaper products (and/or lower overheads) ● economic downturn ● change in customer behaviour / needs / tastes ● government policy / regulation change ● legal action ● tax increases

(ii) – (iv) Responses will vary according to answers in (i).

Marking scheme: 1 mark for naming strategy, 1 mark for explaining how this strategy will respond to the S, W, O or T.

Part B

(i) - (iii) Ratio Calculations

- -½ mark for no :1 or % signs
- -½ mark round 1 decimal except current ratio due to formula
- Accept rounding up or down
- -½ mark for working error
- No marks if wrong answer

(i) Accepted 9.26% or 9.27%
Gearing ratio = Total Liabilities / Total Equity x 100/1 = (163 519 / 1 764 671) x 100/1 = 9.27 %

(ii) Accepted 2.18 or 2.17:1 or any decimals or whole numbers for this ratio
Current ratio = Current assets / Current Liabilities = 222 690 / 102 260 = 2.17:1 or 2.18:1

(iii) -½ marks if 20.88% as 20.870...
Net Profit ratio = Net Profit / Sales x 100/1 = (195 350 / 936 000) x 100/1 = 20.87%

(iv)-(vi) Analysis of Ratios

- ½ mark Trend – fluctuating, varying, increase, decrease
- ½ mark Figure
- ½ mark compare to industry average
- ½ mark judgement / decision

No rules of thumb or 'what to change' required for these questions.

Used percentage points rather than percentage change.

No discussions of good or bad ratio.

Judgement - link ratio to financial statements.

Competitors have less/more advantage and link to industry figure.

Comment is 9 cents of external finance used and 91 cents of internal finance.

Reinforce that financial stability with lower debt to equity percentage enables expansion growth and suits risk adverse entrepreneurs.

Compound error if analysis follows the wrong calculation from (i) - (iii).

(vii) Cash budget analysis – two trends

- ½ mark Trend – increase, decrease, fluctuations, variations
- ½ mark Figures
- ½ mark Reason
- ½ mark Impact on cash bottom line or judgement – improvement / deterioration or cash impact

Some students weren't able to fit their full answer(s) for some questions in Part B and this was considered by markers.

Part C

(i) Contribution Margin

- 1 mark calculation SP/unit - VC/unit
- -½ mark if no \$ sign
- 2 marks for definition of contribution margin
 - 1 mark for SP – VC in written format
 - ½ mark linking to TFC
 - ½ mark linking to Profit

Accepted gross profit per unit as 1 mark

Suggested answer:

Contribution margin = SP - VC = 15 - 2 = \$13 per lesson

The contribution margin is the amount that sales revenue exceeds variable costs, the amount from each unit that contributes toward fixed costs and profit.

Another way of saying this is that the contribution margin is the business' sales revenue less its variable costs. This contribution is used to cover fixed costs and once these are covered, any excess is considered earnings.

Each unit sold contributes its 'contribution margin' toward a potential profit.

(ii) Break-even

- Three marks for break-even calculations for units
- -½ no units listed
- ½ only if some idea
- -½ for not rounding up
- Zero marks if \$20 000 is missing
- -½ rounding up not used
- 1 mark for break-even sales
- -½ for no dollar sign
- 0 marks if non rounding up break-even is used – use rounded units x SP per unit figure
- Compounding error if units incorrect but correct method used for sales calculation.

Suggested answer:

Break-even point = TFC / SP - VC = 20 500 / 15 - 2 = 20 500 / 13 = 1 576.9
= 1 577 units / lessons

Sales dollars = Qty (BE units) x SP = 1 577 x 15 = \$23 655

(iii) **Break-even with profit**

- Three marks for break-even calculations for units
- -½ no units listed
- ½ only if some idea i.e. used \$10 000
- -½ for not rounding up
- Zero marks if \$10 000 is missing
- -½ rounding up not used
- 1 mark for break-even sales
- -½ for no dollar sign
- 0 marks if non rounding up break-even is used – use rounded units x SP per unit figure
- Compounding error if units incorrect but correct method used for sales calculation.

Suggested answer:

Break-even point for desired profit = $TFC + \text{desired profit} / SP - VC = 20\,500 + 10\,000 / 15 - 2 = 30\,500 / 13 = 2\,346.15$
= 2 347 units / lessons
Sales dollars = Qty (BE units) x SP = $2\,347 \times 15 = \$35\,205$

(iv) **Break-even with profit**

- Three marks for break-even calculations for units
- -½ no units listed
- ½ only if some idea
- -½ for not rounding up
- Zero marks if \$25 000 is missing
- -½ rounding up not used
- 1 mark for break-even sales
- -½ for no dollar sign
- 0 marks if non rounding up break-even is used – use rounded units x SP per unit figure
- Compounding error if units incorrect but correct method used for sales calculation.

Suggested answer:

New BE if cost refurbishment \$25 000 (with no desired profit)
 $BE = 25\,500 / 15 - 2 = 1\,961.54 = 1\,962$ units
Sales dollars = $1\,962 \times 15 = \$29\,430$

Part D

- (i) Explain how *City Music* could respond to their competitors and regain a competitive advantage? (4 marks)

Marking scheme – open ended question, 2 x strategies well explained, or 4 x strategies outlined to achieve full marks. Must identify a cost leadership or product differentiation approach to competitive advantage; and strategies must be in line with chosen approach.

E.g. Keep product differentiation approach to competitive advantage in place and negotiate with suppliers, examine overheads to reduce expenses while marketing knowledge and expertise of staff, quality of instruments and customer service to a select target market.

Switch to a cost leadership model of competitive advantage. Reduce costs where possible to increase profit margin. Consider altering the product mix to offer instruments across a range of price points, including those which are more affordable, and appeal to first time instrument buyers. Engage in mass marketing.

- (ii) Suggest TWO criteria for improving business performance over the next 12 months (2+2 = 4 marks)

Marking scheme: 2 marks for each criterion, 1 for naming and 1 for explaining and link to business performance (measurable criteria useful).

No marks for business strategies, vague goals/objectives/discussion of business performance.

Suggested answers include:

- increase sales revenue
- increase sales volume
- increase gross and/or net profit
- lower administrative costs
- renegotiation of agreements with suppliers to reduce expenses
- increase percentage of repeat customers
- reduce customer returns (quality concerns)
- improve brand recognition/loyalty
- complete refurbishment upstairs and be receiving income from this development.

- (iii) Explain TWO ways that the *City Music* practice room refurbishments may impact employees? (2+2 = 4 marks)

Marking scheme: 2 marks per impact, 1 for naming, 1 for explaining

Suggested answers:

- may offer opportunities for staff to generate additional revenue as private contractors, offering lessons
- may increase foot traffic through the store and so increase workload (may increase or decrease morale – depending on how this is managed)

- improve workload/morale as business will be more financially stable, staff may feel more secure in their work
- may require training in managing the refurbished space (administrative tasks, customer queries)
- other answers considered on merit – links to stimulus useful.

(iv) Recommend a strategy to enhance *City Music's* corporate citizenship and explain how this could improve business performance in the long term. (1 + 2 = 3 marks)

Marking scheme: 1 mark for naming the strategy, 2 marks to explain how it could improve business performance in the long term.

Suggested answers:

- sponsoring communities in the 3rd world or more locally e.g. donation of instruments to schools
- offering a music education program or experience to children who could not otherwise afford to learn an instrument (via school or community organisation)
- donating to a charity, or holding a concert for charity
- utilising renewable energy
- equal opportunity policies
- packaging biodegradable / minimised
- staff – paid by business to do charity work a few days a year
- family friendly policies
- ethical suppliers/supply chain
- social justice causes supported/raise money for
- environmental protection, minimising business impact on environment.

Improvement in business performance due to improved brand recognition/loyalty, increased customer satisfaction/repeat customers, improved staff morale / better customer service/reduced absenteeism, short term increased costs offset by long term increase in sales and hence profit due to improvements listed.