The comments and suggested solutions in this report are neither prescriptive nor exhaustive. They have been drawn from the Chief Marking Examiner and the subject marking team.

Main References used:


SECTION A

BST315111 uses the 1 mark = 1 minute rule. Each question is worth equal weight. Depth of treatment is generally poor in this Section. Candidates should be aware that significant detail is required to earn 6 marks.

**Question 1**

- The business already has existing infrastructure, equipment and stock in place. This will save time and expense.
- Employees and any retained management already possess corporate knowledge. This means there is existing expertise and will help avoid a slow start-up period.
- The customer base is already in place. Again, this helps avoid a slow start-up period; there will be some degree of continuity in the level of sales and consequently income. Sales to existing customers will generate instant income.
- The existing owner/s may offer advice and training which will help the new owner/s make a smooth start. Their past experience can help the new owner/s avoid possible mistakes.
- There is less risk in purchasing an existing business as it already has a reputation and a business history. A good business history increases the likelihood of business success.
- A proven track record makes it easier to obtain finance.
- Past financial information will be available. This will help the new business owner/s forecast, as the pace of growth is already known.

(1 mark for stating + 1 mark for describing each of three advantages, 3 x 2 = 6 marks)

**Question 2**

Pricing methods: Competition-based pricing, cost-based (mark-up), customised pricing, market-based pricing, market-customised pricing.

(Candidates who offered pricing strategies such as price skimming as a response received some consideration but pricing strategies do not satisfy the requirements of this question)
Cost-based (mark-up) pricing: Cost + (Cost x Mark-up percentage) = Price. Adding a percentage of the cost price to the cost price to get the selling price is often regarded as the simplest method. The business determines the total cost of producing one unit, adds any additional costs (eg overheads) and adds its desired profit margin (mark-up)

Market-based pricing: This method doesn’t use costs. It uses demand and supply – the firm tries to determine what price the market is prepared to pay for the product. When demand is greater than supply, there will be a shortage and demand will increase. Conversely, there will be a surplus if supply exceeds demand and prices will drop. With this method prices may change constantly, eg bananas.

Competition-based pricing: The price needs to cover costs, but be comparable to competitors’ prices. This is a good method where there is a high degree of competition. The business might set their price below the competitors’ price, equal to it, or above, depending on the circumstances. For example, below to enter the market, equal to where no market research is necessary as there is a price leader in the market, above to give the perception of a superior product.

Customised pricing and market-customised pricing are pricing methods associated with global marketing.

Customised pricing occurs whenever consumers in different countries are charged different prices for the same product. This is the cost-plus method to take into account the added costs of exportation such as transportation, taxes, warehousing and tariffs.

Market-customised pricing sets prices according to local market conditions. It is the market-based pricing method to account for the level of demand and competition within the overseas market. It can also be influenced by the exchange rate.

(1 mark for correctly naming + 1 mark for describing each of three pricing methods, 3 x 2 = 6 marks)

**Question 3**

- Australian Taxation Office: to determine that the appropriate amounts of tax are being paid.
- Financial institutions: to determine whether to lend money to the business. Can the business meet their financial obligations? If the business is liquidated, will there be enough assets to cover debts?
- Potential investors: to determine whether the business is a good investment.
- Management: to know how assets are being used, whether to adjust plans, to forecast, to make decisions on future expansion, to assess employment requirements, to determine cost requirements/cutting, marketing budget adjustments.
- Employees: to know that their job is secure and the business can continue operating. Also to know how they may contribute to future success of the business.
- Customers: they may wish to be reassured about the business’ financial health if they plan to order or buy expensive stock items to ensure that delivery will take place or that ongoing service will be provided.
- Suppliers: would need to be reassured if they were to provide trade credit on an ongoing basis.
- Competitors (some candidates put up a case for this): would want to get any available information on their rivals to monitor their performance and identify any areas of vulnerability or possible impact of their own marketing/sales strategies.
(1 mark for identifying + 1 mark for describing the interests of each of three parties, $3 \times 2 = 6$ marks)

**Question 4**

Incorporated businesses (private and public companies) have limited liability (1 mark). Unincorporated businesses (sole traders and partnerships) have unlimited liability (1 mark), as they are not regarded as separate legal entities.

Limited liability restricts each owner’s financial liability to the amount of money he or she has paid for the business’s shares. (2 marks)

Unlimited liability occurs when the business owner is personally responsible for all the debts of his or her business, even to the extent of their own private wealth. (2 marks)

**Question 5**

ACCC: Australian Competition and Consumer Commission (1 mark)

The Australian Competition and Consumer Commission (ACCC) is an independent Commonwealth statutory authority whose role is to enforce the Competition and Consumer Act 2010 and a range of additional legislation, promoting competition, fair trading and regulating national infrastructure for the benefit of all Australians.

Our priorities are reflected in four key goals:
1. maintain and promote competition and remedy market failure
2. protect the interests and safety of consumers and support fair trading in markets
3. promote the economically efficient operation of, use of and investment in monopoly infrastructure
4. increase our engagement with the broad range of groups affected by what we do.


(1 mark for each of two functions = 2 marks)

ASIC: Australian Securities and Investments Commission (1 mark)

ASIC is Australia’s corporate, markets and financial services regulator.

We contribute to Australia’s economic reputation and wellbeing by ensuring that Australia’s financial markets are fair and transparent, supported by confident and informed investors and consumers.

We are an independent Commonwealth Government body. We are set up under and administer the Australian Securities and Investments Commission Act 2001 (ASIC Act), and we carry out most of our work under the Corporations Act 2001 (Corporations Act).

The ASIC Act requires us to:
- maintain, facilitate and improve the performance of the financial system and entities in it
• promote confident and informed participation by investors and consumers in the financial system
• administer the law effectively and with minimal procedural requirements
• enforce and give effect to the law
• receive, process and store, efficiently and quickly, information that is given to us
• make information about companies and other bodies available to the public as soon as practicable.

(1 mark for each of two functions = 2 marks)

Question 6

A business plan is a forecast of a series of actions required in order to achieve a set of business goals. It is a written statement often containing elements such as: an executive summary, a mission statement, an operational plan, a marketing plan, a human resource plan and a financial plan. It is a dynamic document which needs regular revision. It is an essential component of a successful business. (2 marks)

Purposes:
• It identifies strengths and weaknesses of a business. It can reveal where additional training and/or resources need to be directed, and also where the business is doing well and might want to expand or focus attention.
• It can assist in obtaining finance. Few banks would finance a business without scrutinising their business plan as it shows evidence of planning and decision-making. It shows targets and likely scenarios of predicted sales, profits, and marketing plans. Short term goals are considered.
• It helps test the viability of the business. A written plan will help the business owner clearly gauge whether the business will be a ‘goer’.
• It forces the business owner to justify his or her plans and actions. Accountability to stakeholders in improved.
• It indicates the owner’s ability and level of commitment. If a business owner is unwilling to commit to a written plan for their business, it may indicate that they may have difficulty committing to the business.
• It assists in maintaining the business operation, especially focusing attention on the goals and objectives. If you don’t have a plan, how will you know when you get there?
• It assists the business to be proactive rather than reactive. Preparing the plan will allow the business owner to consider a range of scenarios for which they can be prepared for, or avoid.

(1 mark for stating + 1 mark for describing each of two purposes, 2 x 2 = 4 marks)

Question 7

Franchisor:
• The franchisor has some control over all outlets and can quality assure the training of the franchisee
• Most franchise contracts are usually biased in favour of the franchisor, and are therefore often financially lucrative
• The workload and risk is largely with the franchisee

Franchisee:
• Start-up is often faster as there are known answers to questions
• There is usually a guaranteed customer base in place, the name is known, product awareness is in place
• Marketing and advertising is usually already in existence and quality assured
• There is management and mentoring expertise available which can lower the risk
• Lower risk due to brand awareness and support
• There is a history of success with established and documented processes, which can make it easier to operate and to establish finance
• Previous business experience is not necessary – support is available
• Equipment and premises design are usually established and operational
• Volume buying is possible, often resulting in cheaper stock

(1 mark for stating + 1 mark for explaining each of three reasons, 3 x 2 = 6 marks)

Question 8

Quantitative measurements:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees according to ABS</td>
<td>Less than 20</td>
<td>20-199</td>
<td>200 or more</td>
</tr>
<tr>
<td>Number of owners</td>
<td>1</td>
<td>1-50</td>
<td>Possibly hundreds-thousands</td>
</tr>
<tr>
<td>Geographic spread (number and location of stores) – can be distinguished from market share as market share is a revenue-based measure</td>
<td>1 or 2 stores, usually in a local area/city</td>
<td>Multiple outlets across a state or states</td>
<td>National/international coverage with hundreds to thousands of outlets</td>
</tr>
<tr>
<td>Market share</td>
<td>Small, usually local area; not dominant in industry</td>
<td>Medium, due to dominance within a geographic region; some market dominance</td>
<td>Large, especially for multinational corporations that dominate the markets of many countries</td>
</tr>
<tr>
<td>Most common legal structure</td>
<td>Sole trader</td>
<td>Partnership</td>
<td>Public company</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>Private company</td>
<td>Franchise</td>
</tr>
</tbody>
</table>
Qualitative descriptions:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision making</td>
<td>Owner/s responsible for majority of decisions; simple and quick implementation of decisions</td>
<td>Owner/s basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors</td>
<td>Complex decision making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management</td>
</tr>
<tr>
<td>Type of ownership</td>
<td>Independently owned and operated by usually one or two people</td>
<td>Owned and operated by a few people and/or private shareholders</td>
<td>Owned usually by thousands of public shareholders</td>
</tr>
<tr>
<td>Sources of finance</td>
<td>Usually finance will come from a combination of capital invested by owner/s supported by a financial institution loan; difficulty in accessing loans</td>
<td>Usually finance will come from a combination of capital invested by owner/s supported by a financial institution loan; easier accessibility to larger loans</td>
<td>Finance will come from shareholder investments, retained profits, loans and other cash reserves</td>
</tr>
<tr>
<td>Most common legal structure</td>
<td>Sole trader Partnership</td>
<td>Partnership Private company</td>
<td>Public company Franchise</td>
</tr>
</tbody>
</table>

(1 mark for naming + 1 mark for describing each of three factors, 3 x 2 = 6 marks)

SECTION B

Question 9

a)  (i)

‘Target Market’ is a group of present and potential customers to which a business intends to sell its product. The customers within the target market share similar characteristics (age, income, lifestyle, location, spending patterns).

2 marks

It is important to identify a target market when creating a marketing plan because a business:

- can direct its marketing strategies, campaigns and resources more efficiently to that specific group of customers better satisfying their needs/wants.
- can refine marketing strategies, review them, make adjustments, set new targets and goals
- can understand consumer behaviour better
• can ensure promotional material is more relevant
• can focus on and specifically tailor the 4 ‘Ps’ to the customer group
• can generate profit from marketing by developing a competitive advantage (4 marks)

2 x 2, or 4 x 1 = 6 marks

(ii)

The difference between a current liability and a non-current liability is based on the time frame it needs to be paid.

Current liabilities: is a financial debt that must be repaid within the short term (up to 12 months) and include bank overdrafts, accounts payables, GST and other short-term loans that are due within 12 months.

Non-current liabilities: are financial obligations that extend longer than 1 year and will be spread over/repaid perhaps over up to 20 or 30 years. Eg: mortgage on property, long-term loans.

1 for explanation, 1 for example, 2 x 2 = 4 marks total

b) All final answers must be shown in the correct format (eg, % sign) with correct rounding to earn full marks.

<table>
<thead>
<tr>
<th>(i)</th>
<th>GEORGIE’S BAKE AWAYS</th>
<th>FLOUR POWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit ratio</td>
<td>Gross Profit</td>
<td>220 000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>Net Sales x 100</td>
<td>330 000 x 100</td>
</tr>
<tr>
<td></td>
<td>= 66.67%</td>
<td>= 63.16%</td>
</tr>
</tbody>
</table>

1 ½ mark for correct answer for Georgie, 1 ½ mark for correct answer for Flour Power
Only ½ for correct working but incorrect answer

<table>
<thead>
<tr>
<th>(ii)</th>
<th>GEORGIE’S BAKE AWAYS</th>
<th>FLOUR POWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Return on OE</td>
<td>Net Profit</td>
<td>80 000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>Total OE x 100</td>
<td>130 000 x 100</td>
</tr>
<tr>
<td></td>
<td>= 61.54%</td>
<td>= 82.35%</td>
</tr>
</tbody>
</table>

1 ½ marks for correct answer for Georgie’s, 1 ½ marks for correct answer for Flour Power
½ for correct working but incorrect answer
### (iii) Profitability

**Looking at the GP and NP ratios**

6 marks (2 x 3 marks)

<table>
<thead>
<tr>
<th>GEORGIE’S BAKE AWAYS</th>
<th>FLOUR POWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Solid GP ratio</td>
<td>• Solid GP ratio</td>
</tr>
<tr>
<td>• 66 cents in every dollar of sales is GP.</td>
<td>• 63 cents in every dollar of sales is GP</td>
</tr>
<tr>
<td>• Good COGS control.</td>
<td>• Good COGS control.</td>
</tr>
<tr>
<td>• Weaker NP of 24.24% compared to GP.</td>
<td>• Strong NP of 36.84%, with nearly 37 cents of every $1 of sales turning into profit.</td>
</tr>
<tr>
<td>• Whilst Georgia’s rate of return on her investment is extraordinarily high it is still lower than her competitor.</td>
<td>• Tight control over operating expenses means NP is maximised as 26 cents in every $1 of sales are spent on operating costs.</td>
</tr>
<tr>
<td>• High expenses which is draining the GP good performance – at 42 cents of every $1 of sales spent on operating expenses, it is costing too much to run the business.</td>
<td>• Very strong rate of return on OE</td>
</tr>
</tbody>
</table>

Discuss TWO profitability ratios for each business: 1.5 marks for each business, (2 x 1.5) 3 x 2 = 6 marks total.

Comments should include movement/change, cost control and net profit.

<table>
<thead>
<tr>
<th>(iv)</th>
<th>Total Assets</th>
<th>A = 50 000 + 130 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>A = L + OE</td>
<td>Assets = $180 000</td>
<td>A = 110 000 + 170 000</td>
</tr>
<tr>
<td></td>
<td>Assets = $280 000</td>
<td></td>
</tr>
</tbody>
</table>

1 and ½ marks for correct answer for Georgie, 1 and 1/2 marks for correct answer for Flour Power

If candidates do not show their workings, markers cannot award any marks if the answer is incorrect.

c) (i) 3 reasons why the profit dropped from 2013 to 2014

Any 3 acceptable reasons: Decreased Sales, increased COGS expense, decrease in Marketing Expense, increased Wages Expense, increased Lease Expense, increased Utilities Expense

3 x 2 marks, 1 for naming and 1 for explaining any 3 reasons

(ii) 4 actions to take to increase profit in 2015:

**Action 1:** Improve sales output

• Implement better training and incentives for sales staff

**Action 2:** Reduce COGS

• Source a cheaper supply of product keeping in mind that the quality cannot be compromised. Can we find cheaper distribution channels and transportation?

**Action 3:** Reduce Wages

• Cut back on wages by looking carefully at peak times/slow times and only employing during peak times. This can also cause problems as we might lose the loyalty and expertise of the long serving staff member. This may have ramifications in the local community. Restructuring the workforce may be necessary for expansion but must be handled sensitively.
Action 4: Expand marketing/promotion

- spend money on marketing campaign to remind people in the area that the business is still operating and use the competitive advantage of “tried and true/long standing, traditional products’ to entice customers back. Perhaps run a ‘Buy one, get one free’ offer or ‘Free bun for every 5 purchased’ or a loyalty card program, or ‘15% off for seniors on Tuesdays’
- Review current marketing strategies what can we change/add, remembering that this might elevate expenses in the short term

Action 5: look at valuing adding by offering complementary products like take away coffee/tea or some in-café dining tables

Action 6: Look at other alternative suppliers of other expenses – obviously this needs to be practical – where can power/utilities be sourced from, other than Hydro?

½ for naming, 1 ½ for explaining EACH one

(iii) 2 things to achieve a successful repositioning of the business and be more competitive:

ONE: add similar products to the ones FPB offer, but perhaps re-design the store to be ‘Country Style / Traditional Home Bakery and café’ and introduce a uniform in keeping with the new design which is very different from FPB’s modern and trendy approach, and also very different from the discount bread offered at the supermarket (point of difference). Add a range of gluten-free, and preservative free, heavier rye breads, traditional ingredients and baking methods to gain a competitive advantage. Perhaps add made-to-order healthy option sandwiches, or a range of breads that are marketed as superior products that command a high price.

TWO: – perhaps target the older clientele and advertise in the local bowls club, nursing home, RSL club various weekly or monthly specials – offer a catering service to these locations for special events.

2 x 3, 1 for naming and 2 for explaining, for a total of 6 marks

Question 10

a) (i)

TWO Promotion options (other than advertising) might be:

- Personal Selling – door to door, trade shows
- Relationship marketing - loyalty programs
- Sales promotion – coupons, premiums (cookbook with a food processor sale), cash back refund, samples/taste testing, point of purchase displays by the supplier/manufacturer
- Publicity and public relations – donations, sponsoring teams and events, give-aways in a raffle
- Online presence – face book, google search
- ‘above the line’, ‘below the line’
- Social media
- sponsoring, sales promo, public relations

1 for naming and 1 for description, 2 x 2 = 4 marks

(ii)
Candidates needed to show an understanding between pricing methods and pricing strategies. THREE Pricing Strategies a business might use:

Bundle pricing – customers buy a ‘bundle’ of goods – Telstra/ Optus use this, as do car leasing companies.

Price skimming – highest price possible to maximise profits. Good for new products and innovations which have a ‘wow’ factor.

Price penetration – lowest price possible to sell as many products as possible to discourage competitors.

Loss leader – take a ‘hit’ on selling one product very cheaply to entice people into the store and buy other products not on sale.

Price points – selling products only a pre-determined prices regardless of cost price. Eg: clothing retailers.

Optional pricing

Psychological pricing

Premium pricing / prestige pricing

1 for naming and 1 for description, 3 x 2 marks = 6 marks

b) The aspects of the marketing mix Joanne needs to consider in the planning stage are:

PRODUCT

- The actual product must be created and tailored to suit the target market – who are they? (tourists, locals, people who like boating and eating). It is a new and innovative product that could be perceived as ‘luxury’/top end of the market which needs to be backed up with great food, excellent service and beautifully appointed vessel.

- What is Joanne selling: Fine dining? Buffets? Showcasing local produce? Is it a night sightseeing cruise experience? Will need the best staff (admin/booking staff, service staff and kitchen staff) for the ultimate service experience.

- What type of boat is it? Where will the boat go? What is the capacity? Is the cooking done on board?

PRICE

- Premium pricing model often signals high quality and exclusiveness – is this what Joanne is seeking?

- El-cheapo for the masses (cheap and nasty image?) or luxury item as a memorable experience? Or something in between? Private functions? If the price is set too high, the business could lose sales unless it is creating a superior image through packaging, branding and customer service.

- Pricing method to cover costs and set an acceptable margin on each unit.

PROMOTION

- How will she market the product and raise awareness of it to the target market both locally and to tourists specifically?

- Branding: logo design – uniquely Tasmanian (green, clean, pristine)

- Value-add by focussing on special events: eg: Christmas in July, weddings, birthdays

- Options include: Airline magazines? AFR? Food magazines? Shop-a-dockets? Entertainment Book?
• Cross-promotion with other businesses, eg: in local hotels, with airlines and travel agencies, corporate events and tourist locations? Complimentary attractions such as MONA – perhaps 2 for 1 deals or discount deals for the 2 activities, or free drink vouchers?
• Word of mouth (from an excellent product/service) and free publicity via showcase spot in newspapers, weekend guides, social media.
• Priority listing with Google search

PLACE
• Strong presence at Elizabeth Street Pier or similar location with plenty of clear signage
• Is there a ‘pick up from hotel’ option from a taxi/limousine service as part of the product? Is it one-way or return?
• How will customers pay?
• How will they source the food – direct from local producers? Middleman?

4 aspects discussed = 15 marks, 3 discussed = 12 marks, 2 discussed = 8 marks, 1 discussed = 4 marks
c)

(i) TWO environmental issues and the implications:
Environmental issue 1 – legal requirements
Must attend to all legal requirements for her new venture, eg: all regulations to do with marine operations, service of food, disposing of waste, as well as her social, community and environmental responsibilities if she is to gain the respect and loyalty of the business community, local users and tourists.
Implications if Joanne fails to consider these – bad reputation, negative word of mouth advertising, penalties/fines, possible closure
Environmental issue 2 – carbon emissions
By using a vessel with excellent fuel economy this issue could be addressed. A yacht could achieve this as it is wind powered, but this may compromise the dining experience. Solar panels, low toxicity anti-fouling and sustainably sourced construction materials could all help achieve this goal, as could returning some proportion of profits to environmental causes.
If carbon emissions are not considered, it may lead to negative publicity. It may also mean the vessel costs much more to operate and this cost would have to be passed on to customers in the form of higher priced product/s. This higher cost may mean people cannot afford the product. In addition, if the vessel doesn’t use an environmentally-friendly operating systems, this may diminish the quality of the product (smoke fumes/smells) and cause customers to have a negative experience, leading to negative word of mouth advertising.
Other acceptable answers might include:
• Training and treatment of staff – preparing and serving of food, cleaning and maintenance and operations on board a moving or docked boat presents additional challenges for all staff and Joanne must recognise that and provide the necessary training and supervision. Any additional OH&S requirements must be met and the workplace must be safe.
• Good corporate citizen – ‘give back’ to the community, eg: free or discounted social events for disadvantaged/ill/disabled sections of the community. Sponsor events or issues, source locally, employ locally.
• Pollution – smoking butts over the edge of the boat
• Sustainable systems – low suds in the kitchen, Waste removal – toilets
• The souring of food is another potential environmental issue. Local, sustainably sourced seafood and paddock-to-plate food sourcing policies could help here. The business could form relationships with particular local farmers using sustainable practices and they could cross-promote as food origin stories have proven to be popular with customers (eg: The Gourmet Farmer and the guy who runs The Bruny Island Cheese Farm). Organic produce and the idea of ‘food miles’ are also environmental strategies, but may be more populist than effective in achieving environmental sustainability goals.

• The consumers that Joanne is targeting are likely to be affluent, socially and environmentally aware and failure to consider these aspects could harm the business’s reputation. If she wishes to use this idea for marketing her business she will also need to back up environmental claims with real action and production decisions, otherwise she can expect a consumer backlash.

• Using recyclable materials – eg: recyclable cups (if they use them)

• Operations management – honest, truthful dealing with all stakeholders, displaying utmost integrity in discussion with councils and government agencies, competitors and consumers. Ensure all actions are carefully considered with all negative impacts on stakeholders acknowledged. Balance the need to maximise profits with the desire to meet the wider responsibility Joanne has to the community

Implications might include: bad reputation, closed down if council believes they aren’t following the rules, destroy their own environment and people won’t want to go on a tour on an ugly river.

1 for naming, 2 for explaining, 2 for implications for each environmental issue

ii) TWO ethical issues and the implications:
Business ethics is the application of moral principles to business situations. Ethical issues could occur in any aspect of the business, from operations to marketing to HRM.
Ethical Issue ONE: Honest and ethical marketing
In marketing, Joanne will need to be honest and fully live up to all marketing claims about the level of service and the efforts made to achieve environmental sustainability.
Implications:
Failure to do this could have impacts on the future success of the business in terms of sales and staff morale. Consumers are becoming more suspect of ‘green washing’ (exaggerated environmental claims) so Joanne must make sure she both meets her marketing claims and is seen to reach these standards. Online reviews have magnified the importance of word of mouth promotion, and unethical marketing practices will soon be noticed and discussed by customers.
Ethical issue TWO: Training and treatment of staff:
Staff will need to be employed on merit, skills, qualifications and attitude rather than on looks, gender, sexual preference, religion, age or other non-relevant characteristics. If the business employs staff in this manner it will be complying with legislation and meeting ethical HR practices, while maximising the quality of service and providing staff with incentives to work hard and improve qualifications.
Implications:
Failure to comply could result in lower productivity and staff morale as well as possible legal action if staff are discriminated against.
Other acceptable answers might include:
• Equal opportunity – wheelchair access/disability facilities
• Ethical / corporate code of conduct
• Dietary and religious beliefs – different foods offered
• WH&S – must comply with safety and hygiene regulations and registrations
• Meeting legal requirements.
• Being a good corporate citizen: sponsor an event in the local community
• Support local community: source local staff and supplies

1 for naming, 2 for explaining, 2 for implications for each ethical issue

Question 11

a) (i)

THREE other costs (not wages) a business will incur in employing an individual are:
1. compliance with laws and regulations, including industrial relations legislation
2. paying employees for expenses legitimately incurred as a result of performing their work
3. OH&S - providing duty of care for the safety of all employees by providing a safe environment and safe system of work, providing and maintaining work sites that do not expose employees to risk of injury,

Other acceptable answers might include:
• training and development costs
• superannuation contributions – 9% required to be paid as employer contribution and records must be kept of all payments which need to be provided to employees, on demand.
• work space – office/factory/break rooms – physical space costs $, particularly if renting premises, uniform costs/dry-cleaning
• leave allowances – sick, flexibility, parental, annual, personal/carers, long service, public holidays, redundancy payments

(1 for naming, 1 for describing each, 3 x 2 = 6 marks)

(ii)

‘Voluntary separation’ means the ending of the employment contract which the employee consents to/chooses
Three ways are through voluntary resignation, voluntary redundancy or retirement. It occurs due to closure of workplace site, completion of project, lack of contracts or orders for work, a downturn in demand from customers or a need to reduce staff due to financial difficulties in the business

1 mark + 3 marks = 4 marks

(b) THREE HRM policies or practices used to ensure rights/responsibilities are protected. Advantages and disadvantages of each one.
Organisational restructuring is a reason for separation and employers need to take great care in following all the legal processes involved in dismissing an employee to avoid costly claims of unfair dismissal.
One possible answer:
• manage the separation carefully, plan for the restructuring
  o advantage is that morale and productivity do not suffer during the restructuring process
  o disadvantage of this is it will take time, the HR Manager won’t have time for other tasks while the planning is going on

Other acceptable answers might include:
• notice and leave entitlements must comply with legislation and industrial agreements.
• ensure all anti-discrimination legislation is followed
• offer voluntary redundancies without losing highly valued employees. Offer affordable and appropriate packages, make good decisions
• documentary evidence would be required for all closures of stores.
• need to consider length of service, standard of performance, future potential, and who is willing to leave voluntarily.
• sever staff who are leaving immediately and pay out their notice
• provide a written statement confirming the termination and date of determination.
• offer support and counselling where appropriate
• assist those wishing to leave to find alternative employment and provide transition assistance
• employ an HR Manager to oversee the changes

1 for naming, 2 for advantage and 2 for disadvantage, 3 x 5 = 15

(c)
(i) Implications of proposed rationalisation on stakeholders:
Shareholders
• may see an improvement in the bottom line in the near future as the stores that are not performing well are being closed down and this could lead to an increased share price
• Share price may experience a drop in the short term as people withdraw funding from the company while they are unsure about the future.
• Share price may drop when negative publicity of the closures hits the media.
• May not have capacity for as high profits as before – reduced dividends
• May need to invest more for the restructure
• May have some time to wait before profits return

Managers:
• The business is in survival mode and reputation could be damaged severely if the situation is dealt with poorly and without carefully planning and implementation this will affect the performance of both the business and the managers
• some managers will now be out of a job or think that their job in ‘on the line’ and this will be difficult for them to carry out the rationalisation plan if they feel their own job is under threat and/or if they feel a deep sense of loyalty to the business and its employees.
• All managers need a clear vision of where the business is headed and will need to feel they are part of the restructuring process to empower them
• Others will be in a position to perhaps increase the size and profits of their stores – opportunities for growth.
• Stress of dealing with the separation process – how can they remain positive during the restructure? Some may need specific training and development.

Local community:
• Impact of unemployment and the flow-on effect of this in the community
• People may have to move away to find employment
• Poorer economic conditions in the community due to people having less money to spend
• Increased competition for job vacancies could be bad for job seekers but good for businesses needing workers (more people to choose from)
• Negative impact on families in the community if they have lost their job
• some communities will now have a bookshop closing in their region and may not have an alternative – decreased choice
• loss of a good/service provider that may have ‘given back’ to the community and now can no longer do so.

5 + 5 + 5 = 15 marks

(ii) How do you determine which employees should be retained? (Answers need to demonstrate analysis and evaluation)
• Loyalty
• Youth
• Perhaps those that have the best sales records and are the most efficient workers
• the least amount of customer complaints against them,
• the long-standing members – they know the company, they have corporate knowledge that can be used and have experience
• Those that are the cheapest and on the most flexible contracts
• Those that smile and are passionate about the business

5 marks

SECTION C

Question 12

(a) (i)

<table>
<thead>
<tr>
<th>Strengths (3)</th>
<th>Weaknesses (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tasmanian</td>
<td>• Outdated plant and machinery</td>
</tr>
<tr>
<td>• Manufacturing for over 50 years</td>
<td>• Cost of expansion = $3.5 million</td>
</tr>
<tr>
<td>• Double the quantities produced with new machinery</td>
<td>• Tired business after 50 years?</td>
</tr>
<tr>
<td>• Customer loyalty – long standing business</td>
<td>• ‘Tasmanian’ may limit growth opportunities</td>
</tr>
<tr>
<td>• Proactive management – enquiring about expansion</td>
<td>• Business product currently not being developed to full potential</td>
</tr>
<tr>
<td>• Employing 100 people – loyalty to local community</td>
<td>• Potentially small talent pool if only employing locally</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities (1)</th>
<th>Threats (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Source from local suppliers</td>
<td>• Mainland competition</td>
</tr>
<tr>
<td>• New irrigation schemes around the state are diversifying fruit range</td>
<td>• Cheap imported fruit</td>
</tr>
<tr>
<td>• Asian and European market potential</td>
<td>• Economy – is fruit cordial a necessity?</td>
</tr>
<tr>
<td>• Changing consumer trends towards ‘paddock to plate’</td>
<td>• Increasing health awareness – fruit cordials are bad for your health</td>
</tr>
<tr>
<td>• Mainland expansion</td>
<td>• Changing consumer tastes – trending towards carbonated drinks and energy drinks</td>
</tr>
</tbody>
</table>

(minus 1 mark if not presented in ruled table format)
(ii)

- Outdated plant and machinery: Plans are in place to update. This is a priority.
- Cost of expansion = $3.5 million: Investigate sources of finance to fund the expansion such as leasing. If cost is too prohibitive, outsourcing some elements of the processing may be an option (without losing ‘local’ advantage), or investigate cheaper or smaller expansion.
- Tired business after 50 years: Plans are in place to update. This is a priority.
- ‘Tasmanian’ may limit growth opportunities: Reduce priority on being ‘Tasmanian’.
- Business product currently not being developed: Capitalise on new fruits being developed.
- Small talent pool: Offer incentives for employees from outside the local area to attract new talent.

2 marks for each of two strategies

(iii)

- Mainland competition: update plant to be more competitive and market abroad in new markets in Asia and Europe
- Cheap imported fruit: repositioning will lower the cost of production, therefore improving cost relativity. Capitalise on international markets using ‘Tasmanian’ product
- Economy – is fruit cordial a necessity?: marketing campaign following repositioning to promote awareness
- Increasing health awareness: produce lower sugar product or promote ‘natural’ benefits compared to other beverages
- Changing consumer tastes: marketing campaign to entice the younger demographic away from carbonated and energy drinks. ‘Healthier choice’ aspect needs to be promoted. Aim other campaigns to Mums and Dads emphasising the healthy choice for their children and the long term benefits to their children of buying locally – jobs for our children in years to come

2 marks for one strategy

(b)

Mission

It must reflect the unique character of the business. It must refer to the case study, eg Tasmanian, supporting local farmers, 50 years in business.

It must fulfil the requirements of a mission statement:

‘An effective mission statement is concise, to the point, realistic, operational, inspiriational, informative, and even emotional. It is forward-thinking, positive, and describes success.

Your Mission Statement Should:

- Express your organisation’s purpose in a way that inspires support and ongoing commitment.
- Motivate those who are connected to the organisation.
- Be articulated in a way that is convincing and easy to grasp.
- Use proactive verbs to describe what you do.
• Be free of jargon.
• Be short enough so that anyone connected to the organisation can readily repeat it.’


4 marks

Operations

Essential information for 3 marks
• Production cost of a bottle September – October = 170000/85000 = $2
• Production cost of a bottle November – December = 135000/90000 = $1.50
• 25% decrease, 50 cent decrease

Other comments for the additional 3 marks might include:
• General comment on the changes in the production costs over the year
• Increased efficiency due to upgrade has led to increases in production
• Production costs per unit have decreased and selling price has remained the same and total revenue has increased

6 marks

Marketing

Marketing objectives: (explanations given are examples only – many responses may be appropriate)
Objectives must be realistic and measurable.

Increased market share: By January 2016 TFC will produce 60% of all fruit cordials produced in the State. Sales will increase by 8% over the next financial period.

Expand the product range: By January 2015 two new varieties will be added to the product range. A further two new varieties will be added by the end of 2015, following market research.

Diversify: By June 2015 TFC will offer a range of low-sugar options.

Increase the size of their existing market: By March 2015 TFC will export to Asia and Europe.

Maximise customer service: Aim for 98% positive feedback on customer service responses.

1 mark for stating + 1 mark for explaining each of two objectives, 2 x 2 = 4

Marketing strategies:

Free samples: samples will be given away at supermarkets and shopping centres. Tasting stations will be set up, followed up by give-aways and prizes. School canteens will be sent free samples and heavily discounted prices for entry into the market.

(PTO)

Packaging/Design: a new bottle has been designed with a long neck making it distinct from other varieties but still with the distinctive logo and branding. All bottles will move toward this design over the next 24 months.
Product range: A blueberry and raspberry flavour range will be marketed with a traditional image to refresh to position of TFC as a local, long standing business. A premium range will be marketed, with a premium price, to capitalise on ‘trendy’ markets in Sydney and Melbourne.

Place: Extend outlets both locally, nationally and internationally. Offer online sales.

Advertising: Clean, green image. Fantastic Tasmanian fruit juice cordial made in the traditional way.

1 mark for stating + 1 mark for explaining each of two strategies, 2 x 2 = 4 marks

Finance

Current Ratio = \frac{CA}{CL} = \frac{165000}{210000} = 0.79:1 2 marks

Debt to Equity Ratio = \frac{TL}{TOE} = \frac{275000}{265000*100} = 10.38\% 2 marks

(minus half a mark for incorrect rounding, minus half a mark for incorrect format)

Liquidity: The current ratio shows whether the business can meet its short-term debts (approximately 1 year). 0.79:1 indicates that for every $1 of current liabilities, the business only has 0.79 cents of current assets which means that they cannot meet their short-term debts. This is an unsatisfactory liquidity position. The business should aim for at least 1.5-2:1 so that they can meet their obligations easily. 2 marks

Solvency: The debt to equity ratio shows the reliance on outside sources to fund the business. The higher the debt to equity ratio, the higher the risk to the business. This firm isn’t carrying a lot of debt finance which indicates a lower level of risk. The owner controls almost 90% of the business, with outsiders controlling just over 10% of the business. 2 marks

Four ways of financing machinery upgrade of $3.5 million:

- Long term bank loan: Such a big amount would be a high risk to a financial institution. They would want security on repayment
- Government Grant: There may be the possibility of sources government funding due to the ‘local’ focus of the business
- Leasing the machinery instead of purchasing would allow the cost to be spread – easier to manage cash flow, as well as avoiding interest costs
- Rights issue: invite current shareholders to inject more capital. They will be offered bonus shares as an incentive
- Issue more shares: a publicity campaign could target Tasmanians to support a local business

1 mark for naming + 1 mark for briefly describing each of four, 4 x 2 = 8 marks

options had to be appropriate for the purpose for full marks

Recommendation

Argue the case for whether or not the purchase and installation of the new machinery would benefit the Company.
Arguments such as improved cash flow, ongoing potential for growth, changing consumer attitudes towards ‘paddock to plate’, essential for long term growth, keep pace with competitors.

Arguments such as very high cost, and therefore risk. Budget forecasts may not eventuate. Asian and European market exposure may not be successful.

2 marks for case for + 2 marks for case against + 2 marks for decision = 6 marks

Question 13

(a) (i)

<table>
<thead>
<tr>
<th>Strengths (3) – Internal Factors</th>
<th>Weaknesses (3) – Internal Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Skill and enthusiasm of new owner</td>
<td>• No previous business experience</td>
</tr>
<tr>
<td>• Shop and land and available</td>
<td>• No business plan mentioned</td>
</tr>
<tr>
<td>• Owner has lots of different ideas</td>
<td>• No mention of skilled, experienced staff</td>
</tr>
<tr>
<td>• Range of equipment planned</td>
<td>• Declining gross profit</td>
</tr>
<tr>
<td>• Previous financial experience from banking career</td>
<td>• Declining net profit</td>
</tr>
<tr>
<td>• All of his new ideas: lessons and coaching, simulator, expanded range of equipment, sponsorship, scholarship program</td>
<td>• Significant stability problems</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities (1) – External Factors</th>
<th>Threats (2) – External Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increasing popularity of golf</td>
<td>• Local residents’ objections to development of land</td>
</tr>
<tr>
<td>• Several world class courses opened in Tasmania</td>
<td>• Media reports opposing development</td>
</tr>
<tr>
<td>• Practice range, small par-three golf course and putt-putt combined not currently available</td>
<td>• ‘Elite’ therefore expensive sport</td>
</tr>
<tr>
<td></td>
<td>• Increases in interest rates make it more difficult to pay back loans</td>
</tr>
<tr>
<td></td>
<td>• Golf is a weather dependent activity</td>
</tr>
</tbody>
</table>

minus 1 mark if not presented in ruled table format

many candidates showed confusion deciding if a factor was an internal or an external one

(ii) Possible answers to address some weaknesses listed above:

• No previous business experience: Phillip should enrol in a business owner’s course or source a business mentor to help guide him through. He will need to understand business documents, be able to interpret them and use them for planning and decision making. He will also need to understand the language of business.

• No business plan mentioned: Phillip must write a business plan. It will help him address the issues involved in setting up this business. It will force him to consider finance, marketing and staffing. It will also help clarify his goals and targets. The plan will be crucial in securing finance.

• No mention of skilled, experienced staff: With Phillip’s inexperience in business matters, he may do well to employ staff not only experienced in golfing, but also in business.

2 marks for each of two strategies, 2 x 2 = 4 marks
(iii) Possible answers to address some threats listed above:

- Local residents’ objections to development of land: His plan to offer golfing scholarships and to sponsor a Tasmanian golf tournament will assist him in raising the profile of his business and help him position himself as a good corporate citizen who is aware of his responsibilities to his community. He should ensure he minimises any negative impacts on the environment and establishes ecologically sustainable processes where possible. He should adopt the ‘hire and purchase locally’ motto wherever practical.
- Media reports opposing development: Seek media exposure prior to his launch highlighting above information to gain positive exposure.
- ‘Elite’ therefore expensive sport: Phillip should adopt a two-fold marketing campaign based on a wide variety of stock and services – make it affordable to expand interest and attract younger people and families and also offer the ‘elite’ range.

2 marks for one strategy

(b) Mission

It must reflect the unique character of the business. It must refer to the case study, eg CSR and range of products and services.

It must fulfil the requirements of a mission statement:

‘An effective mission statement is concise, to the point, realistic, operational, inspirational, informative, and even emotional. It is forward-thinking, positive, and describes success.

Your Mission Statement Should:

- Express your organisation’s purpose in a way that inspires support and ongoing commitment.
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- Be articulated in a way that is convincing and easy to grasp.
- Use proactive verbs to describe what you do.
- Be free of jargon.
- Be short enough so that anyone connected to the organisation can readily repeat it.’


4 marks

Operations

<table>
<thead>
<tr>
<th>Sole Trader</th>
<th>Partnership</th>
<th>Private Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Total control</td>
<td>• Diversified skills – partner with someone who possesses the skills Phillip doesn’t have, eg business and finance</td>
<td>• Unlimited liability</td>
</tr>
<tr>
<td>• Can implement all own ideas</td>
<td>• Shared roles and responsibilities – Phillip could still be the ‘ideas man’</td>
<td>• Shared roles and responsibilities</td>
</tr>
<tr>
<td>• Make all decisions</td>
<td>• Shared workload</td>
<td>• Diversified skills</td>
</tr>
<tr>
<td>• Keep all profits</td>
<td>• More sources of capital</td>
<td>• More sources of capital</td>
</tr>
</tbody>
</table>
Appropriate legal structure 1 mark
Three reasons 3 x 1 mark

Marketing

Evaluation of one of Phillip’s ideas

Golf lessons and professional coaching: would address two sections of the target market – beginners and more advanced. Could attract families, or corporate bodies.

Golf simulator: proven success on the Mainland. Untapped market in Tasmania. Cost analysis would be imperative as it is expensive to purchase.

Expanding the range of golf equipment: current stock levels may indicate that stock is not matching consumer demand. Phillip would need thorough market research to ensure that golfing equipment offered is demanded.

Sponsoring a major Tasmanian golf tournament and inviting top players: Displays CSR and also opens up the opportunity to link in with other ‘elite’ Tasmanian experiences. As the country’s best golfers would likely be in the high income group, tourism ventures linking with Saffire and MONA could encourage visitors to stay longer.

Junior golfing scholarship program: Displays CSR and seeks to guarantee the future of the sport.

Evaluation of one of Phillip’s ideas (pros, cons and recommendation) for 3 marks
Evaluation of an original idea (pros, cons and recommendation) for another 3 marks

Finance

Current Ratio = \( \frac{CA}{CL} = \frac{217000}{40000} = 5.43:1 \) 2 marks
Debt to Equity Ratio = \( \frac{TL}{TOE} = \frac{470000}{425000} \times 100 = 110.59\% \) 2 marks
Rate of Return on Owner’s Equity = \( \frac{NP}{TOE} = \frac{36000}{425000} \times 100 = 8.47\% \) 2 marks
Net Profit Ratio = \( \frac{NP}{NS} = \frac{36000}{430000} \times 100 = 8.37\% \) 2 marks

minus half a mark for incorrect rounding, minus half a mark for incorrect format
half a mark for any correct working shown

Profitability: RROE and NPR measure profitability. The higher the ratios, the better. The RROE compared to other investments is a sound return to the owner in the current market. Although the NPR is satisfactory, it indicates that there may be issues with the expenses. Sales and profit have both decreased from 2013-2014 which is something Phillip would need to address.

1 mark for comment on each of the two ratios = 2 marks

Liquidity is measured by the current ratio. This is very high which indicates strong ability for the business to repay its debts within the next year. However, the vast majority of the business’s current assets
($213000 of $217000) is stock, which may indicate stock management problems. Phillip would need to investigate this to ensure that current stock is matching consumer demand. Having such high levels of funds tied up in stock may be detrimental to the business.

1 mark for comment on ratio + 1 mark for advice = 2 marks

Solvency is measured by the debt to equity ratio. This business has significant concerns in relation to solvency. The business owes more to outside parties than the business is worth, which is a very high level of risk. If Phillip makes the decision to buy the business, this is something which would need to be addressed immediately. Perhaps selling the land and buildings, using the money to pay out the loan and leasing them back may be a possibility. Liquidating stock may also assist. An injection of capital would also assist.

1 mark for comment on ratio + 1 mark for advice = 2 marks

Sources of finance

Debt finance: Phillip could borrow from outside sources such as a bank. He would need to be careful that the business didn’t over-rely on debt finance as it exposes the business to higher risk.

Equity finance: Phillip could inject more of his own capital (or that of a partner or shareholder). This is a safer option for the business, and cheaper than borrowing. It is also more attractive to lenders if further finance is needed. It does, however, rely on the owner having available funds.

Sell off non-current assets: The land and buildings could be sold and leased back.

1 mark for naming + 1 mark for briefly describing each of three, 2 x 3 = 6 marks

Recommendation

Possible reasons:

<table>
<thead>
<tr>
<th>For:</th>
<th>Against:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established business would have goodwill</td>
<td>Very high risk</td>
</tr>
<tr>
<td>Potential for expansion</td>
<td>Niche market</td>
</tr>
<tr>
<td>Possibility to introduce a range of new ideas</td>
<td>Currently poor stock management – why?</td>
</tr>
<tr>
<td>Good RROE</td>
<td>Increasing expenses</td>
</tr>
<tr>
<td>Strong liquidity</td>
<td>Declining sales</td>
</tr>
</tbody>
</table>

2 marks for decision + 4 marks for reasons = 6 marks
### Award Distribution

<table>
<thead>
<tr>
<th></th>
<th>EA</th>
<th>HA</th>
<th>CA</th>
<th>SA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>This year</td>
<td>7%</td>
<td>23%</td>
<td>35%</td>
<td>35%</td>
<td>408</td>
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<tr>
<td>Last year</td>
<td>9%</td>
<td>32%</td>
<td>32%</td>
<td>26%</td>
<td>371</td>
</tr>
<tr>
<td>Last year (all examined subjects)</td>
<td>10%</td>
<td>19%</td>
<td>39%</td>
<td></td>
<td>32%</td>
</tr>
<tr>
<td>Previous 5 years</td>
<td>5%</td>
<td>22%</td>
<td>41%</td>
<td></td>
<td>31%</td>
</tr>
<tr>
<td>Previous 5 years (all examined subjects)</td>
<td>11%</td>
<td>19%</td>
<td>39%</td>
<td></td>
<td>30%</td>
</tr>
</tbody>
</table>

### Student Distribution (SA or better)

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Year 11</th>
<th>Year 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>This year</td>
<td>51%</td>
<td>49%</td>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>Last year</td>
<td>46%</td>
<td>54%</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Previous 5 years</td>
<td>51%</td>
<td>49%</td>
<td>26%</td>
<td>72%</td>
</tr>
</tbody>
</table>