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


**SECTION A**

**General comments**

- Candidates are reminded that they are not expected to write the entire question out and then respond to it. They are merely required to provide the number of the question and their response.
- Candidates should be aware of the expectations of each section of the exam and of the criteria assessed within each section.
- BST315111 uses the 1 mark = 1 minute rule.
- The verb at the start of the instruction indicates the depth of treatment required. Verbs such as discuss, describe or explain indicate that more detail is required than verbs such as list, state, give or name.

**Question 1**

Some candidates misread the question and gave accounts of the advantages and disadvantages of purchasing an existing business. Others described attributes of being a sole trader and an entrepreneur. As always, students are urged to read the question carefully.

**Advantages**

- Owner can set it up however they want
- Owner can determine the pace of growth and change
- No extra cost of purchasing goodwill
- No burden of previous bad owners/reputation
- Owner can establish personal stamp on the business
- If funds are limited, it is possible to begin on a smaller scale
**Disadvantages**

- More work to set up/establish the business
- Need to work hard to establish customer base
- More effort required to establish a good name and reputation
- May be more difficult to obtain finance in an unproven business
- Time needed to employ staff and establish relationships with suppliers
- Higher risk
- Greater degree of uncertainty with no previous sales/profit figures to work on
- Need to determine a suitable location
- If the start-up period is slow, then the business may not generate profits for some time

*(Marking scheme: 1.5 marks each for two advantages + 1.5 marks each for two disadvantages)*

**Question 2**

This question confused some candidates. Most candidates chose to interpret it as an existing incorporated business choosing to become a franchisor, entering into contracts with franchisees. Other candidates gave examples and showed understanding of the franchisor/franchisee relationship, which was also an acceptable answer to this question.

Relatively few students attempted this question probably not fully understanding the requirements. The general interpretation was that of changing from an incorporated business to a franchisor by using the process to expand into new markets. Those students providing examples demonstrated a better understanding of the process involved.

- Less risk of business failure
- Training offered by franchisor
- Usually the good name and reputation has been established, so less marketing required to establish a solid customer base: immediate benefit from the franchisor’s goodwill
- Advice and assistance available from franchisor
- Fewer responsibilities in decision-making
- Equipment and premises design are usually established and operational
- Well-planned advertising often exists
- Probably easier to access finance
- Territorial rights are usually offered
- Established suppliers and bulk-buying discounts are available

*(Marking scheme: 3 marks each)*
Question 3

This question was also reasonably popular amongst candidates. Some candidates mistakenly interpreted the question as the stakeholder influences, while some listed three external influences but did not describe the effect of each on the business. Candidates need to be aware that the criterion requires them to “demonstrate knowledge and understanding of business principles, concepts and issues”. Students need to be accurate in their interpretation of the requirements of the question and not provide information unrelated to the issue. For example, a number of candidates confused external influences with stakeholders. Others mentioned interest rates which is part of the financial influences.

<table>
<thead>
<tr>
<th>External Influence</th>
<th>Effect (other examples may have been acceptable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Businesses may face increased wages and increased demand in boom periods, and decreased demand and easier employment in recession periods.</td>
</tr>
<tr>
<td>Financial</td>
<td>Changes in global financial markets has resulted in a more flexible, market-oriented approach and increased competition across the financial sector making funding options more accessible. Communications technology advances also make global financial transactions easier.</td>
</tr>
<tr>
<td>Geographic</td>
<td>Australia‘ geographic location within the Asia-Pacific region and the economic growth in a number of Asian nations provide challenging opportunities for business expansion, sales and profit. Globalisation is another significant geographical factor.</td>
</tr>
<tr>
<td>Social</td>
<td>Rapid identification and response to changes in tastes, fashions and culture can lead to sales and profit opportunities, and business growth.</td>
</tr>
<tr>
<td>Legal</td>
<td>Legislation in the areas of taxation, industrial relations, work health and safety, equal employment opportunity, anti-discrimination and the environment will impact on business.</td>
</tr>
<tr>
<td>Political</td>
<td>Major political change can lead to business uncertainty or business confidence.</td>
</tr>
<tr>
<td>Institutional</td>
<td>Government, regulatory bodies or other institutional influences impact on business. For example, ASIC, ACCC, ASX.</td>
</tr>
<tr>
<td>Technological</td>
<td>With appropriate technology, businesses can increase efficiency and productivity, create new products and improve the quality and range of products and services.</td>
</tr>
<tr>
<td>Competitive Situation</td>
<td>Competition can stimulate greater efficiency in production and usually results in a better quality product or service at the lowest cost to the business.</td>
</tr>
<tr>
<td>Markets</td>
<td>Changes in financial/capital markets, changes in labour markets and changes in consumer markets can impact on business.</td>
</tr>
<tr>
<td>Environmental influences</td>
<td>Changes in climate or seasonal events including the possible impacts of climate change.</td>
</tr>
</tbody>
</table>

*(Marking scheme: 1 mark for naming + 1 mark for describing the effect of each of three external influences)*
Question 4

The quality of responses to this question varied widely. Some candidates focussed on the impact of employment on individual unemployed Australians rather than Australian businesses. The topic was “unemployment” - the question was about the effect on business. Those that read carefully scored well.

- Provides for a bigger pool of available labour resources when recruiting.
- Could recruit labour at more favourable rates.
- Existing staff may work harder in fear of losing their jobs.
- Level of spending (sales) usually decreases as consumers who are concerned about job security are more inclined to save rather than spend any excess income.
- Interest rates tend to remain lower in periods of higher unemployment, therefore borrowing (or paying down debt) may be more attractive.
- Unemployment is linked to increased stress and illness so it places strains on individuals, families and the health sector. This may lead to high absenteeism for those caught up in supporting them.
- Unemployment means less sales and less profit which can have a dampening effect on a business’s immediate existence or future expansion plans.
- Government will spend more on welfare. The positive – it ameliorates some of the loss of spending because people are not earning a pay cheque. The negative – it may means funds that were earmarked to assist the business sector need to be redirected to welfare.

*(Marking scheme: 3 marks for explaining each of two effects)*

Question 5

It was clear that some candidates did not understand the difference between incorporated and unincorporated businesses. Some referred to the limited liability of sole traders and partnerships, while others confused ‘limited liability’ with current and non-current liabilities. A large number of students attempted this question although there was some misunderstanding of the differences between incorporated/unincorporated businesses. Many students introduced discussion of sole traders/partnerships as justification of their explanation of ‘limited liability’.

In order to gain full marks candidates were required to mention 3 main points:

1. Limited liability is a feature of corporate ownership that limits each owner’s financial liability to the amount of money he or she has paid for the business’s shares.
2. That the owners are separate from the legal corporate entity.
3. The potential loss to any investor in a company is limited to the amount invested in the first place. If the company goes bankrupt only the company’s assets can be liquidated to pay outstanding debts. Shareholders cannot be forced to sell personal assets to cover any shortfalls.

*(Marking scheme: 6 marks)*
Question 6

Some candidates simply listed three ethical or social or environmentally responsible management practices. Others gave vague answers with no indication of how this reflected responsible management. Better answers gave an example of each management practice and explained its benefits to the business. Answers to this question varied between mention of ethical/social/environmental issues to discussion at greater depth, with examples, of “responsible management practices”.

- Addresses the triple bottom line – economic, socio and environmental outcomes
- Greater harmony within the organisation
- Employees feel secure and will be more productive as a result
- Better acceptance by the community
- Saves the business money on use of resources energy and disposal of waste
- Forces management to consider the impact on others of their decisions
- Meets society’s high expectations on business responsibilities in areas such as the environment and marketing
- Meets society’s needs for more refined and complicated goods and services
- Addresses the need for the earth to live sustainably
- May increase customers and sales
- Purchasing locally to address needs of the local community
- Varying employment arrangements when times are tough

*(Marking scheme: 2 marks for each of three benefits)*

Question 7

Few students attempted this question probably indicating that they were not ready for such a specific question. Markers allowed interpretations based on the functions of the Fair Work Act.

The Fair Work Commission is the national workplace relations tribunal. It is an independent body with power to carry out a range of functions relating to:

- the safety net of minimum wages and employment conditions
- enterprise bargaining
- industrial action
- dispute resolution
- termination of employment
- discrimination in the workplace
- other workplace matters

Work Place Standards Tasmania works with the Tasmanian community to improve standards of safety and health in workplaces, buildings and energy infrastructure. The addition of the word (WorkSafe) in the question confused some candidates who were aware that this is the name of the campaign to raise awareness of safety in the workplace.
Other activities of Work Place Standards Tasmania include:

- conducting accidents and incident investigation
- delivering awareness and educational programs
- assessing and processing licences and permits
- providing strategic policy analysis and advice
- accrediting building practitioners
- health and safety publications
- work health and safety information sessions.

*(Marking scheme: 1.5 marks for each of two functions of the Fair Work Commission and 1.5 marks for each of two functions of Workplace Standards Tasmania (WorkSafe))*

**Question 8**

Better responses defined social media, and gave examples of these media. Some also commented on the impact on businesses which had not embraced social media. Discussions ranged from a basic overview of the effects of social media in its many forms to discussions of the varied impact of the use/non-use of this medium. However, better answers explained how social media has influenced consumer behaviour. Simply stating that online sales have increased which has obviously changed buyer behaviour does not explain how social media plays a role in this process.

- Increased advertising via social media to consumers will lead to increased demand.
- More targeted advertising by Facebook and Google based on consumers’ online (digital) footprint and behaviour. For example, use of Facebook ‘likes’, Google adverts while browsing.
- Customer complaints and reviews more readily provided to businesses via online review sites and forums.
- More information available about new products.
- Consumers are more knowledgeable and sophisticated in their expectations of goods and products.
- Sharing, liking and retweeting increases knowledge of product – consumers may buy as it’s been recommended by a ‘friend’.
- More online advertising has occurred. Social media advertising is now becoming a necessity for businesses.
- Since Facebook has become a public company, it has been working to monetise its enormous user base.
- Marketers use fewer sites as more social media sites are becoming available.

*(Marking scheme: 3 marks for explaining each of 2 different examples)*
SECTION B

Question 9

(a) (i) Some candidates confused external recruitment with external recruitment methods.

External recruitment involves finding suitable applicants from outside the business. A business will use external recruitment methods when it wants to bring in people with new or different ideas and attitudes.

Disadvantages include:

- The applicants are ‘unknown’ to the business
- The decision may be a difficult one with a large number of applicants
- Externally sourced employees may not understand the practices and essence of the business
- Negative attitudes may be brought to the business
- Advertising costs
- Time to complete the process

(Marking scheme: 2 marks for explanation, 1 mark for one disadvantage)

(ii) Internal recruitment occurs when a business decides to appoint someone already within the business to a vacancy.

Disadvantages include:

- Might not get the ‘best’ person for the job
- Sense of competition within the business
- Relationships may be affected if someone ‘misses out’
- May disrupt productivity if an employee is moved from one role
- May not bring new ideas to the business

(Marking scheme: 2 marks for explanation, 1 mark for one disadvantage)

(iii) Involuntary separation occurs when an employee is asked to leave the business against his or her will. Candidates needed to use the correct terminology: redundancy, retrenchment or dismissal.

There are three types of involuntary separation:

Involuntary redundancy: When a business deems that a particular job a person is doing is no longer required to be performed.

Retrenchment: When a business dismisses an employee because there is not enough work to justify paying him or her.

Dismissal: When the business terminates the employment contract of an employee due to lack of performance or inappropriate behaviour.
(Marking scheme: 1 mark for explanation of involuntary separation, ½ mark for naming each of two types, 1 mark for discussion of each of two types)

(b)  

(i)  
• Establish some production goals and offer rewards (monetary or non-monetary) for achievement of the goals  
• Reinforce work health and safety practices and procedures by conducting workshops and meeting to inform and remind staff of the importance of working safely  
• Establish some goals for accident-free working days and once again offer rewards for achievement of the goals  
• Remind staff of sick leave requirements – doctor’s certificates  
• Establish attendance goals and offer rewards to faithful employees

(Marking Scheme: 1 mark for one, 3 marks for two, 5 marks for three)

(ii)  
There was some confusion for candidates on what constitutes a monetary and a non-monetary benefit. Also, many candidates did not clearly differentiate between the two in their responses.  
• Offer assurances of non-closure of the business if goals are obtained  
• Offer 12-month contracts to give employees the opportunity to prove their worth to the business  
• Promote employees who display positive attitudes and good work habits  
• Put on a staff function after achievement of safety goals  
• Offer pay bonuses for achievement of production goals  
• Offer ‘Employee of the Month’ scheme incorporating gift bonuses  
• Offer on-the-spot gifts to employees observed doing the right thing

(Marking Scheme: 1 mark for one, 3 marks for two, 5 marks for three)

(iii)  
• Employ a Human Resources Manager to oversee the changes  
• Ensure that the safe work environment is maintained as per work health and safety laws  
• Ensure fair treatment of employees as per anti-discrimination laws  
• Ensure the 10 National Employment Standards are adhered to  
• Offer adequate payouts for redundancies/retrenchments  
• Offer retraining opportunities  
• Communicate changes clearly and adequately to keep employees informed

(Marking Scheme: 1 mark for one, 3 marks for two, 5 marks for three)
Many candidates were too brief in their responses, listing (for example), one implication for the business, one implication for the employees and one implication for the local community for 15 marks.

Implications for the business:

- More motivated staff
- Fresh ideas brought to the business by new employees
- Less time lost due to absenteeism and workplace accidents
- Better production outcomes
- Lower wages expenses should increase profitability
- Possible negative impact on reputation due to loss of jobs
- Harmonious and friendly competitiveness in the workplace as employees strive for bonuses

(Marking scheme: 1 mark for one, 3 marks for two, 5 marks for three)

Implications for remaining employees:

- With the opportunity for promotion, employees should be motivated to do the right thing towards the business.
- The opportunity to gain supervisory skills may motivate existing staff
- Happier workplace for diligent workers who may have also been frustrated by the previous arrangements
- Monetary and non-monetary rewards may motivate employees

Implications for the separated employees:

- Impact on family
- May have to relocate to find more work
- Financial impacts of losing job

(Marking scheme: 1 mark for one, 3 marks for two, 5 marks for three)

Implications for the local community:

- Knowing that the business will remain rather than close or relocate will relieve the community
- Local businesses will receive the flow-on effect of the business remaining (positive) but may also receive the flow-on effect from the separated employees (negative – less income to be spent)
- To counter the effect of any damage to reputation by decreasing the workforce, the business may look to local sponsorship to improve their reputation
- Changes in population/demographic with potentially some new people arriving and some previous people leaving

(Marking scheme: 1 mark for one, 3 marks for two, 5 marks for three)
(ii)  
- All legal entitlements such as long-service leave and holiday pay must be paid  
- Up to 16 weeks’ severance pay on redundancy, based on length of service (as per NES)  
- Up to five weeks’ notice of termination must be given or payment in lieu of notice, based on length of service (as per NES)  
- Written notice must be given (as per NES)  

(Marking scheme: 1 mark for one, 3 marks for two, 5 marks for three)

**Question 10**

(a) (i) This question was not done well. Many candidates defined a current asset as an asset that is owned currently, or an asset that you have right now, or an asset to be used within the first year. Many of the examples listed included non-current assets, so understanding was not clear.

A current asset is an item whose value is expected to be used up, or turned over (converted to cash), within 12 months. For example, cash at bank, cash on hand, accounts receivable, inventories.

(Marking scheme: 3 marks for description + 1 mark for each of three examples)

(ii) Owner’s Equity was not clearly understood by many candidates. A large number of candidates stated the Rate of Return on Owner’s Equity equation when responding to the “How is this calculated?” question.

Owner’s equity refers to the funds contributed by the owner(s) to establish and build the business. It is calculated by either: Assets minus Liabilities, or Capital add Net Profit (less Net Loss) less Drawings.

(Marking scheme: 2 marks for definition, 2 marks for explaining calculation)

(b) (i) Common issues included rounding (even though instruction is given on the formula sheet) and knowing the format in which to present the answer, ie, as a percentage. Some candidates were presenting the answer in ‘units’ or as a ratio (x:1). Another error was incorrectly calculating Net Sales as Sales minus COGS. As the question didn’t state the year to be calculated, the NPR for Kerry’s Pizzas for 2012 was also accepted.

\[
\text{NPR for Kerry’s Pizzas} = \frac{76000}{300000} \times 100 = 25.33\%  
\]

\[
\text{NPR for Kate’s Kebabs and Pizzas} = \frac{110000}{340000} \times 100 = 32.35\%  
\]

(Marking scheme: 1.5 marks each. Part marks given for any correct working shown.)
(ii) Rounding and formatting issues were evident, but this part was done better than (b) (i).

\[
\text{RROE for Kerry’s Pizzas} = \frac{76000}{400000} \times 100 = 19\
\text{RROE for Kate’s Kebabs and Pizzas} = \frac{110000}{210000} \times 100 = 52.38\%
\]

*(Marking scheme: 1.5 marks each. Part marks given for any correct working shown.)*

(iii) Conclusions about profitability were, on the whole, well done. The most common misconception was that a NPR of 25.33\% and 32.35\% for Kerry’s and Kate’s respectively was unsatisfactory.

Conclusions about financial stability were not well done. Many candidates used the Rate of Return on Owner’s Equity when commenting on financial stability. (And again, many candidates commented that Kerry’s RROE of 19\% was unsatisfactory).

Candidates who interpreted the Debt Ratio as the Debt to Equity Ratio were given credit.

<table>
<thead>
<tr>
<th>Business</th>
<th>Profitability Conclusions</th>
<th>Financial Stability Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kerry’s</td>
<td>• Good profitability</td>
<td>• Debt Ratio of 33.33% indicates that one third of the business is controlled by outsiders, therefore two thirds is controlled by the owner</td>
</tr>
<tr>
<td></td>
<td>• Returning 25.33% for every dollar of sales</td>
<td>• Acceptable level of risk</td>
</tr>
<tr>
<td></td>
<td>• Solid ROE compared to other investments</td>
<td>• More financially stable than Kate’s</td>
</tr>
<tr>
<td></td>
<td>• Not as profitable as Kate’s</td>
<td></td>
</tr>
<tr>
<td>Kate’s</td>
<td>• Very good profitability</td>
<td>• Debt Ratio of 58% indicates that more than half of the business is controlled by outsiders</td>
</tr>
<tr>
<td></td>
<td>• Returning 32.35% for every dollar of sales</td>
<td>• High level of risk</td>
</tr>
<tr>
<td></td>
<td>• Very high ROE compared to other investments</td>
<td>• Less financially stable than Kerry’s</td>
</tr>
<tr>
<td></td>
<td>• More profitable than Kerry’s</td>
<td></td>
</tr>
</tbody>
</table>

*(Marking scheme: 1.5 marks each)*

(iv) Very few candidates even attempted this question – many left it out completely. And of those candidates who did attempt it, very few got it right. The most common incorrect answer was Expenses + COGS = Total Liabilities, so the concept of ‘liabilities’ and how to calculate them was not clearly understood by many candidates.

\[
\begin{align*}
\text{Kerry’s Total Liabilities} & = 600000 - 400000 = 200\ 000 \\
\text{Kate’s Total Liabilities} & = 500000 - 210000 = 290\ 000 \\
\end{align*}
\]

*(1.5 marks each. Part marks given for any correct working shown.)*

(c)

(i) • Cost of goods sold increased disproportionately to the increase in sales possibly due to a change in suppliers or mismanagement of stock
• Delivery vehicle expenses have increased possibly due to increased fuel costs, or increased insurance and registration costs
• Wages have increased possibly due to increases in award rates, or an increased number of staff
• Other expenses have increased

(Marking scheme: 2 marks for each of three reasons)

(ii) Very few candidates specifically addressed this question, seemingly due to a lack of understanding of ‘repositioning’. Most responses were about how to make Kerry more competitive in general, rather than specifically to do with the repositioning.

• Develop a larger restaurant area and attract more dine-in customers
• Diversify product range in new restaurant eg seek alcohol licence for dine-in customers, or offer a new range of foods such as pretzels, sweets or bakery items
• New marketing strategies for new premises eg ‘opening specials’, free drink with dine-in
• Restaurant may be able to have longer opening hours thereby gaining competitive advantage over take-away.

(Marking scheme: 3 marks for each of two strategies explained)

(iii) This question was well done. The most common incorrect responses were those that did not clearly explain how the strategy would increase profit.

• Introduce marketing strategies to increase customers. For example, loyalty cards, discount offers, two-for-one offers, ‘Cheap Tuesday’.
• Examine pricing policies
• Investigate different suppliers in order to decrease cost of goods sold to increase profitability
• Investigate ways to decrease all expenses so that price cuts may be tolerated
• Market point of difference eg specialising only in pizzas means that the pizzas are better

(Marking scheme: 2 marks for each of four strategies explained)
Question 11

(a)  (i) Candidates were asked to ‘describe’ the four stages of a product life cycle for four marks. The word ‘describe’ led students to believe they had to write at length on each stage (even though each stage was only worth 1 mark).

(Marking scheme: ½ mark for name, ½ mark for description)

(ii)  

Introduction:
Trialling the product
Building customer awareness
Establishing brand and reliability
Promoting heavily
Establishing place in market with price

Growth:
Maintaining sales
Establishing repeat customers
Promoting more widely
Distributing more widely once product becomes more popular
Actively pursuing brand acceptance

Maturity:
Differentiating the product eg with packaging
Assessing the pricing policy to hold off competitors and maintain market share
Continuing to promote brand as reliable, secure and ‘the best’

Decline:
Either reinventing the current product or focussing on a new product
Cut the price to sell remaining stock

(Marking scheme: 1.5 marks for each stage, at least 2 suggestions in each stage)
(b) (i) Candidates were confused about the requirements of (b) (i) and (b) (ii). There was a regrettable editing error on question (b) (ii) which caused many candidates to misinterpret both parts of the question. Any three characteristics of the target market were accepted as were any segments of the target market.

- Age: Retirees
- Stage of life: Probably couples with children that don’t live at home, and grandchildren
- Access to and interest in technology: Less reliance on technology
- Income: Self-funded retirees may be more ‘comfortable’ with mortgage paid off and fewer responsibilities with children. However, older retirees may be dependent on pension, therefore less income.

*(Marking scheme: 2 marks for each of three characteristics explained)*

(ii) As mentioned in (b) (i) the editing error on the exam paper caused problems but candidates should be aware that market segmentation has four elements. These are listed below:

Demographic: Has already determined age. Gender specific or general? Family size and life cycle? Social class?
Geographic: Where is the greatest concentration of this target market? Discount vouchers offered will have to be relevant to location
Lifestyle: Will she be able to cater to the interests of readers in a variety of socio-economic groups?
Behavioural: How will she establish brand loyalty and maintain readers in a highly competitive magazine market?

*(Marking scheme: 1 mark for naming and 2 marks for description relevant to the case study)*

(c) (i) This question asked candidates to write a Marketing Plan which considered these areas: branding, positioning, packaging and publication, pricing methods, promotional strategies and distribution. Candidates who ignored these headings and made up their own performed poorly. It is poor exam strategy to ignore the instructions of the question. Few candidates understood the term ‘positioning’.

- Branding
- Positioning
- Packaging and publication
- Pricing methods
- Promotional strategies
- Distribution

*(Marking scheme: 3 marks each)*
(ii)  
- Will she use recycled paper?
- Will she use local paper?
- Will she produce in Tasmania?
- Will she be able to guarantee that all discount promises by other businesses will be honoured?

(Marking scheme: 1 mark each)

SECTION C

Question 12

(a)  
(i)  
**Strengths**

(minimum 3, maximum 4)
- Operated for many years, reputation
- Located on East Coast, near beaches
- Quality, well-priced products
- Large, spacious premises
- Engaging professional help to upgrade Business Plan
- Good liquidity

**Weaknesses**

(minimum 3, maximum 4)
- Lost market share
- Not using large premises to full potential
- Business plan outdated
- Buildings and fittings outdated
- High debt
- Profits decreasing

**Opportunities**

(minimum 1, maximum 2)
- New social network marketing opportunities
- Work/life balance awareness – more people looking for leisure and recreational activities
- Low interest rates could enable expansion

**Threats**

(minimum 1, maximum 2)
- Competitors are marketing more effectively
- Online competitors
- Products might be seen as luxury items rather than necessities, might be affected by a less favourable economic conditions

(10 marks)

(ii) Any two strategies to address any two weaknesses, eg Business Plan updated by professional, new targets set.

(1 ½ marks each strategy)
iii) Any strategy to address any threat, eg price reductions, diversify range, new target market to address competition.

(2 marks)

b) Report format was required. Markers looked for the inclusion of: clear headings, short paragraphs, bullet points, third person and the use of formal language.

(5 marks)

• New marketing ideas proposed by owners
  o Better use of premises and beachfront location
  o Interior and exterior upgrade
  o Using social network
  o Building refurbishment
  o New business plan

(4 x 1 marks [4 ideas explained], or 2 x 2 marks [2 ideas explained more fully])

• Any 3 original ideas, ie any ideas not already provided by case study, eg surf competition; surfing lessons; café, competition for customers to upload photos on Instagram showing them using products from Big Waves.

(1 mark each)

• 2 research methods
  o Primary
  o Secondary
  o Or descriptions of any two research methods

(1 mark each)

• 3 marketing strategies
  o Any three strategies as long as they are linked to the new proposals
  o Some students may repeat answers already given in Part B and this is acceptable

(1 mark each)

• Any 3 ways of evaluating, these might include:
  o Observation
  o Collecting data, comparing data
  o Surveying
  o Setting targets and time frames for achievements
  o Using external party

(1 mark each)
c) Some candidates re-calculated the ratios even though they were provided in the exam paper. This was a waste of candidates’ time.

i) NP Ratio
   In 2012, for every $1 of Sales Revenue, 10.6 cents was returned as Net Profit. In 2013, 2.6 cents was returned as Net Profit from every $1 of Sales Revenue. This is an alarming decrease which appears to be mainly due to a decrease in Sales and an increase in Expenses.

   *(2 marks for 2012 comment, 2 for 2013 comment and 2 marks for a reason for the decrease)*

ii) Rate of Return on OE Ratio
   The return on the owner’s investment is very low at 2%. For every $1 invested, 2 cents is returned to the owner. The owner may be tempted to invest elsewhere.

   *(3 marks)*

iii) Debt Ratio
   Candidates met another challenging editing error in the exam paper. They did not know this ratio. It is not in the course. Most candidates interpreted this to mean Debt to Equity ratio. Markers were instructed to be flexible when allocating marks to this question. Any reasonable interpretation earned 3 marks.

   Debt to Equity shows how much the business is relying on external sources to finance the business. This firm has 60 cents in external debt for every $1 of internal debt. If the Debt to Equity ratio is 60% this appears to be a safe position.

   A few candidates were familiar with Debt Ratio. The following answer was also acceptable:

   Debt Ratio shows the relationship between Total Liabilities and Total Assets. In this case, a Debt Ratio of 60% reveals the business to be highly geared and exposed to some risk.

   *(3 marks)*

iv) Financial Liquidity
   For every $1 of Current Liability there is $3 of Current Assets to meet current obligations. This appears to indicate the business has sufficient current assets to meet its current debt.

   *(3 marks)*

v) 3 reasons for fall in profits
   o Significant fall in sales revenue
   o Significant increase in expenses
   o + any other valid reason, eg, a comment about a specific expense or a comment regarding COGS in relation to Sales revenue

   *(2 marks for each reason)*

vi) Admin Expenses
   o Increase in consumables
   o Increase in Insurances
   o Increase in Stationery, Office Supplies
   o Increase in Internet, Phone services
Interest Payments
  o Loan is reducing over time so interest payments are lower over time
  o Reduction in interest rates
  o Loan has been re-financed

(2 marks for Admin Expenses, 2 marks for Interest Payments)

vii) Due to the inclusion of an additional, unexpected 20-minute question in this year's paper, some candidates did not have time to address this question. Markers were generous and flexible with candidates’ responses.

Possible recommendations:
  o Increase in Sales Revenue – MUST be one of the recommendations!
    ✷ New marketing campaign, new target market, diversify product, online market
  o Decrease COGS
    ✷ Source cheaper suppliers, diversify stock
  o Decrease Expenses
    ✷ Reduce Overheads
    ✷ Reduce Wages
    ✷ Reduce Admin Expenses
  o Other possibilities that could be discussed:
    ✷ Sell premises and lease back
    ✷ Sell other assets and lease
    ✷ Pay down debt
    ✷ Use Capital to invest in higher-returning funds

(3 x 5 marks)
Question 13

a)  

i)  

Strengths (minimum 3, maximum 4)  
- Established business with good reputation  
- Strong existing customer base  
- Lots of good ideas to expand business  
- Solid profits predicted  
- Current manager willing to assist takeover  
- Nail expert ready to start  
- Equity in own home

Weaknesses (minimum 3, maximum 4)  
- Only one year of figures – are they reliable long term?  
- Limited financial resources available  
- Proposed borrowings will eat into profit  
- Managerial inexperience  
- Outdated interior

Opportunities (minimum 1, maximum 2)  
- Younger people moving into area  
- Salvation army partnership good for reputation  
- Community partnerships with schools

Threats (minimum 1, maximum 2)  
- Competitors  
- Declining economic conditions in demographic area  
- Existing customers faithful to current manager may leave

10 marks

ii) Any two strategies to address any two weaknesses. For example:
   a. only one year of figures – seek additional financial information from previous years, from other similar businesses if possible and use any published industry data. Engage accountant or auditor to examine the figures more closely.
   b. Limited financial resources – seek family loan, government finance/funding for new business venture, low interest business loan
   c. Proposed borrowing will eat into profits – must increase fees and sales, additional revenue ideas should increase profits
   d. Managerial experience – enrol in business course, seek a mentor, engage the previous owner formally to secure the knowledge and experience
   e. Outdated Interior – paint and update decor

(1½ marks each strategy)

iii) Any strategy to address any threat, eg, lower prices to address local economic conditions, community services planned.

b) Business Plan format required. Markers looked for the inclusion of: clear headings, short paragraphs, bullet points, third person and the use of formal language.

5 marks

Legal Structure – Students need to select an appropriate structure and support it with some discussion. Likely structures would be Sole Trader, Partnership or Private Company.

3 marks

Staffing Requirements – Discussion could include skills and experience needed, duties of employees, costs, shifts, numbers of full-time, part-time and casual.
Management Structure – This created further confusion for candidates. Management structure is not in the course. Any short discussion around management or ownership or roles was acceptable as long as candidates related it to the owner’s work requirements.

Future Plans – Discussion could be around the new ideas listed in the case study or candidates might introduce new ideas of their own. They might include: expanding the services, expanding trading hours, discounts or perhaps the new passion, energy and skills of the new owner.

c)  
i) Candidates could select any five of Charlie’s ideas. A prediction of their success or failure supported by reason was required.

(5 x 2 marks)

ii)  
• Any 3 marketing ideas. Students must explain the implementation of the idea.

(3 x 2 marks)

• Any 3 ideas not already in the case study.

(3 marks)

• Price setting – students should state at least one method or strategy and explain it.

(3 marks)

• Advertising – any 3 advertising methods would be acceptable, including a repetition of some already used.

(3 marks)

• Analysis of risks
  o Could lose established customer based
  o Might not work – young people might not respond
  o New demographic may be difficult maintain (are younger people as loyal?)
  o New demographic might be transient and resource-poor (Uni students)

(1 risk = 1 mark, 2 risks = 3 marks, 3 risks = 5marks)

iii) and iv)

Due to the additional time stress already mentioned, and to the fact that questions (iii) and (iv) were printed on the inside back cover of the exam booklet (some candidates just failed to see it), markers were generous and flexible with candidate’s responses to (iii) and (iv). Markers accepted any choice as long as it was fully justified for (iii) and any two appropriate sources of finance for (iv).

(5 marks each question)
### 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>9%</td>
<td>32%</td>
<td>32%</td>
<td>26%</td>
<td>371</td>
</tr>
<tr>
<td>Last year</td>
<td>5%</td>
<td>23%</td>
<td>42%</td>
<td>31%</td>
<td>373</td>
</tr>
<tr>
<td>Last year (all examined subjects)</td>
<td>11%</td>
<td>19%</td>
<td>39%</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>Previous 5 years</td>
<td>7%</td>
<td>21%</td>
<td>39%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Previous 5 years (all examined subjects)</td>
<td>11%</td>
<td>19%</td>
<td>39%</td>
<td>30%</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>46%</td>
<td>54%</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Last year</td>
<td>51%</td>
<td>49%</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>Previous 5 years</td>
<td>47%</td>
<td>53%</td>
<td>37%</td>
<td>63%</td>
</tr>
</tbody>
</table>