The comments in this report are neither prescriptive nor exhaustive. They have been drawn from comments made by the Setting and Marking Examiners and the subject marking team. *Preliminary Business Studies* by Barlow and Dally has been used as the main reference.

- Many candidates did not interpret questions accurately.
- Many candidates did not write enough to maximise their marks.
- Many candidates did not follow the instructions given, for example:
  - The instructions ‘construct a SWOT table’, require a candidate to draw a table.
  - A question with three parts means all three parts have to be addressed; otherwise candidates are giving up one-third or two-thirds of the marks possible.
  - The instructions ‘prepare a report’ or ‘write a plan’, means that a particular format of writing is required.
- A number of candidates did not finish the exam.
- Many candidates did not know the difference between the terms ‘discuss’, ‘name’, and ‘outline’.
- Many candidates did not know the difference between ‘market analysis’ and ‘target market’.
- Many candidates did not understand the internal and external components of a SWOT table.

**Section A**

Each response should take no more than 6 minutes. A good answer was possible in 10 – 15 lines. Headings, dot points and paragraphs with logical structure were helpful. Candidates are reminded to address the intent of the question.

**Question 1**

This was a popular question. Many candidates chose to outline and explain the product life cycle itself rather than to concentrate on the challenges faced during the maturity stage. Occasional use of a life cycle diagram provided necessary focus although the distinction between a business and product life cycle led to confusion in some answers. Answers might include: maintaining momentum, maintaining profitability, growing the market, loss of focus, relevance of product/service to customers, productive use of resources, introduction of new technologies and ideas.

**Question 2**

This was a popular question. Many candidates were able to distinguish between social and financial goals. Better answers gave an example of a financial or social goal and elaborated
how a clash could occur between the two. Some answers provided examples demonstrating brand loyalty and environmentally conscious business practices to highlight specific situations of financial/social goals.

**Question 3**

Candidates had to outline the effects of a downturn on sales, consumer confidence and profits before outlining two opportunities. Better answers mentioned motivation and staff retraining, hiring cheaper staff, preparing business for a future upturn, researching new markets, cutting costs and reducing hours for staff. However, many candidates spent time discussing boom/downturn of the economy rather than the opportunities presented to business. A chart depicting the economic cycle would have been appropriate to include in this answer.

**Question 4**

It was relatively easy to gain good marks for this question. Candidates had to mention and explain limited liability (often confusion between limited/unlimited) and the separation of manager and owners. Explaining briefly the attributes of a private company either as an introduction or in context of describing the advantages or disadvantages was helpful, as was the inclusion of the term ‘incorporated’.

**Question 5**

On the whole this question was well answered, often through the use of examples. There were lots of factors that candidates could use to answer. Better answers related the factors to the context of increased competition. Internal factors might include: skills and training, values, characteristics, cost structures, selling points, competitive advantage, use of new technology, scale of operations. External factors might include macro factors - political, environmental, social, technological, economic or legal (PESTEL), or operating factors - competitors, suppliers, customers, creditors. There was some confusion over the use of the word ‘competition’ in the question, as competition is an external factor.

**Question 6**

This was a very popular question and candidates found it easy to answer. Some candidates did not describe the attributes but rather listed them. To earn full marks, candidates needed thorough, succinct and precise responses.
Question 7

This was a very popular question but candidates still needed to focus on more than emails and social media. Responses needed to show how improvements in communication could be made. Better answers mentioned more than two stakeholders and some answers distinguished between internal and external communication.

Question 8

This was a popular question. While almost all candidates were able to describe two regulatory bodies and their functions, they were asked to relate that to how governments influence the business climate or environment. Attention to this gained the final two marks. Most candidates chose ACCC, ASIC and Fair Work Australia.

Section B

Question 9

(a) (possibly ½ - 1 page)

To answer the question candidates needed to address uses for the balance sheet and profit and loss separately. Providing examples to illustrate uses demonstrated sound understanding.

(b) (i) and (ii)

Full working out was not required for full marks, however, if a mistake was made it was impossible to award any marks. If working out was included then some marks could be allocated to accurate workings. The calculation needed to have been presented in the correct format, eg 2:1 for current ratio and % for gearing ratio.

(iii)

Candidates needed to refer to the changes between all three years, not just the figures in the last year. It was very important to mention the figures and not just state changes between years. Analysis required reference to the industry averages and some discussion of the trend in results.

(c) (i) (possibly 1 ½ - 2 pages for part c)

The candidate needed to demonstrate an understanding of financial stability. Answers might have included: generating more cash to improve short term stability, selling off assets for longer term stability, additional injections of capital, reduction in liabilities, paying off borrowings.
(ii)

Candidates should have separately discussed ways to improve profitability. Reference to the Profit and Loss Statement and figures contained within was needed. For example, sales fell between 2010 and 2011 from $2 400 to $2 100. Candidates then needed to provide strategies to increase sales, not just say ‘increase sales’ without any indication as to how the business can achieve this.

Global financial influences needed to be relevant to the case or at least given some consideration in connection to air travel/overseas travel. Candidates might have discussed the impact of the $AUD on tourism, the growth in the Asian market or increasing fuel costs.

The most common errors in this question were:
- Not having a clear understanding of the uses of the Profit and Loss Statement and Balance Sheet, and the differences between them.
- Incorrectly indicating that high gearing is good.
- Not knowing the difference between financial stability and profitability.
- Not writing enough relevant information.

**Question 10**

(a) (possibly ½ - 1 page)

Many candidates did not clearly address the intent of the question. Candidates who produced report-style answers provided better structured responses. It was much clearer for markers to award marks when candidates indicated separation of their points, providing an explanation for each. Answers might have included a discussion around: price, size, growth, volume, competition, brand, consumer behaviour, demand, market research, ethical considerations, SWOT.

(b) (possibly 1 – 1½ pages)

The four individual factors needed to be identified and explained, ie, demographic, geographic, psychographic/lifestyle and behavioural factors. For full marks, candidates needed to include the correct term and correctly link each to the case, eg, demographics – the target market might be adults on higher incomes, affording them the ability to take a keen interest in the beverages they consume.

(c) (possibly 1 ½ - 2 pages)

Candidates were directed to consider five areas in their marketing plans. Some candidates ignored this completely and it cost marks. Better answers broke the marketing plan down into the sectional headings required by the question. Many
candidates failed to write the plan in the appropriate style, format or tense. Many wrote about what should go into a marketing plan rather than write the actual plan itself. Additionally, many responses were written in general terms, rather than specifically in relation to the new mineral water of ‘Cradle Drinks’.

A common misunderstanding in this part of the question was mistaking positioning for place.

Overall, it was clear that candidates had a good understanding of marketing, but were less able to discriminate between the requirements of each question that was asked.

**Question 11**

This was not a popular question but many candidates who attempted it achieved sound results. It was, in many ways, a more straight-forward question with fewer components and less reading. The first two parts were easy marks for candidates with good HR knowledge.

(a) (i)

The circumstances of involuntary separation had to be ‘discussed’, not listed. To gain 5 marks, candidates had to discuss at least two circumstances. These might include: bad economic conditions or misconduct by the employee. This question was handled very well by most candidates.

(a) (ii)

This was possibly the easiest five marks on the whole paper. Most candidates recognised this and maximised their results. They simply had to name three costs, not describe them. Most candidates chose superannuation, holiday leave and sick leave.

(b) (possibly 1 – 1½ pages)

There was great disparity between the number of HR policies discussed and the depth of discussion. For some candidates the word ‘outline’ implied that only a light treatment was required. In fact, the question was worth 15 marks and the policies needed to be explained to some degree to earn maximum marks. Answers might have included: entitlements, redundancy payouts, role clarity, fairness, equity, OHS, induction, training, adherence to laws, grievance procedures and maintenance procedures.

(c) (possibly 1½ - 2 pages)

This question instructed candidates to consider the implications for three stakeholders – business, employees and the local community. Better responses came from candidates who addressed each stakeholder separately (and in some depth) to earn full marks. A
separate allocation of marks was given to the ethical considerations raised. This may have been done throughout the discussion of the three stakeholders or could have been done separately at the end. Few candidates addressed each section in adequate detail. Very few candidates wrote enough to earn 20 marks, even though candidates were given four explicit areas to discuss.

Section C

Question 12

(a) (i) A SWOT table was required. If a candidate did not present the SWOT in a table format, marks were deducted. Many candidates had difficulty discriminating between S and O, and likewise W and T. Strengths and Weaknesses are characteristics of the business itself, those things that the business has control over. Opportunities and Threats are attributes of the external environment, i.e., external chances to improve performance of the business and external factors that may cause problems for the business. This question should have been an easy 10 marks for candidates.

(a) (ii)

Most candidates could calculate the correct break-even point but not all candidates could tell the correct break-even ‘story’. To gain the full five marks candidates had to show their understanding of the meaning of break-even: ‘5254 dresses needed to be sold each year to break even’. A few candidates quite rightly pointed out ‘you can’t sell 5253.33 dresses’.

(b) (i) (possibly 1 ½ - 2 pages)

Four areas had to be addressed in the Operations section of the business plan. Better answers came from candidates who used the sectional headings given and wrote in the style required of a business plan. Whilst each section might have had equal weight, it is important to note that excellent business missions can be very short in length.

(b) (ii) (possibly 1 ½ - 2 pages)

The Finance section also had prescriptive requirements. At least two options to finance the venture should have been described and they needed to be options which were appropriate for the purpose. At least two pricing strategies needed to be outlined. There was less confusion over pricing strategies and pricing methods this year but there are still candidates getting them mixed up. Linking it to their break-even analysis was problematic if their analysis was incorrect.
The third requirement of part (b) (ii) asked candidates to analyse and interrogate two sets of data and make recommendations. This was a substantial component of the question and should have been given thorough consideration by candidates but too often answers were brief and superficial.

Question 13

(a) (i)

Same comments as for Question 12 Part (a) (i).

(a) (ii)

Most candidates could calculate the Rate of Return on Owner’s Equity. Again, it would have been helpful for some candidates to have shown their workings. Candidates were asked to name one reason for the outcome; most offered ‘reduced sales’ or ‘increased costs’.

(b) (i) (possibly 2 – 2 ½ pages)

The three areas identified in the question had to be addressed in some detail to earn high marks. It could be expected that candidates would address some of the following in the ‘management of current financial position’ section:

- Identification and discussion of the loss incurred.
- Increasing revenues – discussion of price, customers, marketing.
- Decreasing costs – discussion of borrowings, wages, waste, packaging, recycling, technology.
- Restructure the balance sheet – injections of capital, new owners
- Restructure loans – overdraft converted to a bank loan.

Under the sectional heading of ‘obtaining funds to upgrade facilities’, candidates could discuss the challenges and difficulties around sourcing the funds for the upgrade, or strategies to obtain the funds. Some candidates offered solutions such as: community partnerships, government/tourism grants, and selling off some assets. If candidates were recommending the expansion they should have included the type(s) of funding they were recommending and why. If they were not recommending the expansion they needed to have included their supporting evidence.

The last section in part (b) (i) was ‘management of the financial and other influences’. Candidates might have discussed:

- Borrowing offshore to lessen the impact of the high $AUD.
- Marketing online and use of social media.
- Offsetting carbon footprints.
- Hiring overseas workers to address skills shortage.

(b) (ii) (possibly 1 - 1 ½ pages)

Candidates had to use the financial data provided to assess the financial situation of this business. For domestic growth, they might have included: slowing growth, fewer tourists, Tasmania’s declining market share. Some candidates discussed market research, and the marketing mix in this question. Both could be valid responses. To attract overseas tourists, candidates might have included: government funding for overseas advertising, engage a consultant, host events, or use internationally-known celebrities. The candidate needed to make clear recommendations to earn full marks.
SECTION A

Question 1
• Maintaining momentum – profitability, growing the market, loss of focus, relevance of product/service to customers, productive use of resources – capital, human, freshness to customers and employees, introduction of new technologies, ideas

Question 2
• Major goal – profitability – often complimentary to social goal due to sustainability
• Social goal- good corporate citizen – part of community – eg sponsorship of community events eg Gatorade Kingston Beach Fun Run
• Conflict due to cost pressures might want to push jobs off shore eg Qantas moving engineering jobs to overseas

Question 3
• Motivation of employees in times of negativity – communication
• Reducing costs so as to maintain profitability
• Maintaining markets –
• Security of assets – damage, fraud, loss
• Preparation of business for upturn – not to lose valuable employees
• Reduce hours for staff
• If you are not busy, you can put more effort into planning for the future e.g. explore new markets or products that will help build the business in the future

Question 4
• Advantages – limited liability, control of ownership, continuity of business, separation of business from owners legally
• Disadvantages – cost of legal and accounting compliance, complexity of structures ONLY 2 OBVIOUS DISADVANTAGES

Question 5
• Internal – management response – skills and training, values, characteristics, cost structures, unique selling points/propositions, competitive advantage, use of new technology
• External – cost inputs, scale of operations, technology costs, high Australian dollar, lower demand

Question 6
• Visionary – seeing what others miss
• Motivational – getting others to follow and believe
• Prepared to go where others won’t
• Willingness to take risks
• High levels of energy
• Good communicator
Question 7

- Control over assets – e.g. stock barcoding – pricing, stocktake, automatic reorder; GPS tracking of vehicles
- Communication – decrease costs of marketing (in-house preparation of materials), instant communication eg skype, mobiles
- Marketing on line and use of social media
- Precision and cost of production – eg computer controlled cutting devices
- Internet based aspects of businesses eg Amazon, Myer on line

Question 8

- Economic settings – fiscal policies, tax relief, R and D
- Workplace laws – Fairwork Australia and trade associations
- Trade Practices – unfair competition
- Social settings – positiveness of environment, support of businesses eg tourism
- Government departments – BAS statements, planning laws, tax, ABS

SECTION B

Question 9

a) Balance sheet is to provide management the ability to oversee and control the assets, liabilities and owners equity to be able to know what assets the business has, how much they are worth and how they are financed externally (by debt) and internally (by the owners).

The value of the assets is then compared to the profit that is being generated by the business.

Rate of Return on Owners Equity to gauge whether this return is competitive with other businesses.

Income Statement (Profit and Loss) – to know what revenues are generated, the cost incurred to generate and what profit or loss is made. This shows how much profit is being generated and what expenses are being incurred to earn the profit.

The figures can be compared to industry averages (e.g. GPR and NPR) and also the previous income statements of the business to analyse trends (e.g. expenses increasing in certain areas may need to be addressed, so that good profit margins are maintained, or falling Sales figures need to be looked at closely to ascertain the reasons why this is occurring).

b) i) Current Ratio for 2011 = 150/370 = 0.405:1

ii) Gearing Ratio for 2011 = 820/880 = 93.18%

iii) Profitability (NPR) has decreased each year similar to the industry averages except the last year which for Cattlestar is well below the average, and indicates a loss situation (-7%). As the trend has been downward for 4 years this is a major problem to be addressed urgently.

Short Term Stability (Current Ratio) has always been below industry averages and for the last 3 years has been below the commonly accepted 2:1 stability rule. This means that Cattlestar has insufficient funds available to pay short
term liabilities such as expenses and suppliers, putting it at risk of going out of business due to creditors (e.g. suppliers, banks, ATO) not being paid and therefore withdrawing lines of credit or, for employee, refusing to work.

Long Term Stability (Gearing Ratio): Cattlestar has an increasing percentage of borrowed funds. This makes Cattlestar vulnerable to interest rate increases. Their Gearing ratio is considerably above of the Industry Average. The higher level of borrowings will increase their interest expense and affect profits, and increase the level of risk to the business. They must look at ways to reduce debt, as with their current debt levels, they are becoming more financially unstable.

c) i) By getting more cash to improve short term stability. This could be achieved by selling unneeded assets, or possibly a capital injection (e.g. a share offer). For its long term stability, it may need to sell assets (which would mean less planes) in order to pay off some of the borrowings. Whether this can be done without affecting profitability is an issue which needs to be settled before a massive “fire sale” takes place.

ii) By generating a net profit and by reducing costs and increasing fares. However due to increasing fuel costs and competition from other carriers this will be difficult. However the raising Australian dollar has encouraged outbound tourism from Australia. Marketing to encourage these tourists to stay loyal to the local brand would help. Reduce other costs could be helpful (eg cabin staff and engineering).

Question 10

(a) Demand for the product or service, any gaps in the current offerings that could be filled by a new product or service, any market trends
-what prices customers are prepared to pay for certain types of products and services
-market size and market growth rates
-volume of sales,
-what competition there is, e.g Evian, Mount Franklin in relation to products, price and placement of the product
-price of the product – i.e presentation, who it is aimed at (target market), need or desire, placement – where you can locate the product, intended methods of promotion.
-brand perception – is it in the high end or lower end of the market?
(b) Demographic factors – age, sex, education, income and stage of lifecycle.
Geographical factors – location or neighbourhood as well as where the customer makes a purchase including online purchases.
Psychological factors – understand why customers buy goods and services and how the feel about a product, lifestyle characteristics, personality types and their perceived social class.
Behavioural factors – How customers makes decisions, what motivates them, preference to buy new products like iphones etc.

(c) Naming is up to the student; a catchy name with a motto to accentuate the branding of the new drink which will can be a powerful force in the marketing campaign. They can differentiate you from competitors, make an emotional connection with the audience and build a brand that ignites passion and following amongst customers

Product Positioning – refers to the image the drink invokes in the minds of the customers. Once the position of the product has been established the business can develop specific market strategies. It can be up market, boutique or ‘no frills’. A business can use quality, taste, appearance, range of flavours and tastes, value, price, alternative products, perception for active people, wealthy or cool people.
Packaging – green and gold (Tassie colours), use of a Tassie Devil (with a % of sales going to devil refuges ie meeting social responsibilities), or something that features images of the wilderness, waterfalls etc. Packaging can be to protect and advertise the product. Use of colour, images, design, use of key phrases are also important. Information about contents etc is also important and mandatory for some products.

Pricing methods –
- Cost based by using a mark-up.
- Market based pricing of setting prices according to demand and supply.
- Competition based pricing. Similar to Evian as it is a direct competitor providing we can generate sufficient volume of sales to make a profit at the price specified.

Do they use market penetration or price skimming methods as an initial pricing strategy to break into the market segment?

Distribution – as a small boutique operation it would be best not to have to invest time and resources into distribution. Therefore if possible it would be best to use a wholesaler (if one exists that can support the company image and ethos) who would service retail stores, restaurants and tourist locations.

Online sales could be considered

Direct selling to the public from the factory

Ethical considerations can include using stereotypes and sex to sell products, good taste in advertising, using images and advertising during entertainment, truth and accuracy in advertising, concealed facts and exaggerated facts and product placements, invasion of privacy, products that damage health, advertising junk food during children’s viewing times.

Question 11
a) 
(i) – Bad economic conditions or a downturn in sales or if the business restructures its operations or introduces new technology to replace some of its workers. In these instances redundancy monies is normally paid to employees

- there was a valid reason for the dismissal related to the employee’s capacity or conduct and they had been warned about that unsatisfactory performance before the dismissal the employee was notified of that reason and given an opportunity to respond. Some incidents involving employees can result in an instant dismissal without warning e.g. if a crime occurs such as an assault or theft etc.

(ii) “superannuation, workers’ compensation insurance, annual leave, long service leave and leave loadings, sick leave, time and cost of training etc.

These additional costs can add 30% to 40% to the basic wage”

(b) With 200 staff set to lose their jobs, the business will have to ensure that staff in this position receive all of their entitlements, such as unpaid leave and that a reasonable redundancy payout is worked out for them that is in accordance with current industrial law.

The HR Manager has the role to ensure that the following functions of the employment cycle are followed:

Identifying staffing needs for new restructured positions – What functions need to be performed and which staff are suitable to fulfil these needs. Role clarity is important and a career progression is important to employees. How can employees foster initiative, innovation and development professionally

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Recruitment phase to recruit the best staff for the new positions. Will existing employees be used or some external recruitment take place? What messages will external recruitment give to the existing workforce? Can motivation of existing employees be maintained? Will offering contracts to all employees motivate them to make them more productive and happier?

The process for selecting staff for the new positions will need to be conducted in a fair and transparent manner so that all staff feel that they have a fair chance of getting these jobs, and so that the amount of ill-feeling from the job losses is minimised to ensure that the new structure is a success with few hangovers from the redundancies.

Training and development of staff can increase motivation by improving their sense of satisfaction and give them a sense of direction. New staff need to undertake an induction program and be familiar with OH&S practices and procedures. Gaining new skills can increase flexibility and make staff more creative and take on new procedures and use new technology to improve productivity. Training of staff for their new roles will be a big task. The organisation of work will also need a lot of thought and work, as their will be new people in charge of different groups of workers doing different work. The effectiveness of the new structure will need to be monitored, and any problems will have to be dealt with and may require changes to the organisation of the work being done.

Maintenance of employees through a number of monetary and non-monetary benefits. Motivation and training of staff will be a key factor in determining the success of the smaller workforce. While the remaining staff will be paid more, they will also be on 12 month contracts which could either motivate them to work harder to keep their job, or it could bring a fatalistic mindset that they will lose their job at the end of the 12 months which may de-motivate them even further.

Other policies and practices

- OH&S policies and implementation and practices.
- Awareness of equal opportunity and anti-discrimination in the work place.
- Grievance procedures to deal with staff conflicts.
- Unfair dismissal procedures and adherence to the Fair Work Act.

(c) Business – improved productivity and profitability, therefore sustainable in long and short term, however industrial harmony and reputation could be detrimentally affected, need for retraining of staff, extra workload to HR having to process applications, the firm may close or operate off shore in Asia.

Employees – opportunity for change of careers, gain new skills, refreshed, change to working environment – especially during transition with protecting positions and jealousy, drop in pay affecting work conditions, stress during reemployment process, change in work hours – can their family handle this.

Wider community – disharmony as 200 positions disappear, increased unemployment, loss of income in community and flow on of this, loss of services, loss of community as those who lose their position move, lose of skills in local community, decrease in property prices and negative flow on to general local business community.

Ethical considerations – reducing positions, effect on community, changing people’s wages and conditions, effect on employees (stress, effect on relationships with ex-colleagues or those who did not get the positions), treating employees with respect, and employers should avoid conflicts of interests for their own personal gain.

A fair process should be followed in determining redundancies and hiring new employees. Consistency and objectivity in the process are very important. No favours or discrimination should occur based on sex, race age, as well as handicapped and pregnancy. Should a business employ staff from competitors and ask the employee to divulge past employer’s secrets? No misleading facts should be put forward buy either the employer or employee. No employee should be forced to work in an unsafe manner.
SECTION C

Question 12

a) i) Strengths – has been run by person with expertise (Bus Woman of the Year)
   - close friend – support, honesty in sale, insight
     Friend has marketing background and IT (if goes on line)
     Could be a bargain if buying counter the business cycle?
     Established business with good reputation
     Sell clothes online
     Has various ideas to expand the business
     Good profitability compared to price

Weaknesses – only 1 year of figures – no trends
   - No apparent background in fashion
   - Change business name from a successful operation
   - Little financial resources – for expansion or maintain present business
   - Loss of what seems a good operator (and therefore goodwill)
   - Large amount required to expand the business and interest costs could be high.

Opportunities – the online store and use of social media
   - Hobart expansion
   - Expansion into new lines
   - Change company trading name

Threats – competitors (physical or online)
   - Decrease in economic conditions
   - Further increase in A$ will bring in cheaper imports and also deter overseas buyers from buying from the on-line shop
   - Change in customer tastes
   - High Australian dollar
   - Other online competitors

ii) Contribution Margin = 150 – 75 = $75

Fixed costs = 394,000 (assuming other overheads are fixed)
Break even = 394000/75 = 5253.3 dresses per year

(b)

(i) Operations

Business Mission: providing friendly and knowledgeable advice to ladies enabling them to buy unique, exclusive and specialised dresses and formal wear that enhances their appearance. For example

- To provide excellent customer service
- To provide different products to customers in a regional area.
- Other comments can be made about employees, the environment and social responsibility.

Location - Students have the freedom to choose a location as the location of the original shop is not specified. CBD or suburbs or elsewhere, close to parking, size ,other competitors etc., an area where females with a good disposable income who socialise shop and live.

Shopping precincts in or near wealthy suburbs, CBD or large shopping malls.

Staffing requirement: must relate well to females and have a good sense of fashion, energetic and fashionable.

- Number of employees either permanent or casual.
- Skills needed.
- Duties of employees.
- Discuss on costs, shifts etc.
- Treatment and motivation etc.

Store Manager – full time, opens store and manages it, 2 part timers to cover for store manager when sick or on leave, weekends and work alongside each other or store manager during busy periods (end of school year, Christmas functions, Valentines Day etc)

Ownership – students need to choose a structure and justify their choice e.g. a partnership may be desirable in order to attract the necessary capital to expand the business, or a company structure may be preferred, to separate the business from the owner and provide future protection of personal assets from business failure.

Finance –

Financing options - Students need to consider types of equity finance from existing and new shareholders or owners and various forms of external finance options

bank loan - may need to offer personal assets as security (e.g. mortgage on your home), issuing shares, joint venture with partners, finance broker

perhaps the Hobart store and its equipment could be leased meaning that the success of the business is not as tightly attached to the Hobart business as it would be if store and equipment are purchased.

Pricing strategies – Skimming, penetration, cost based method, market based or competition based methods?

Given the break even was for 5253 dresses (if they got the earlier question wrong will this have a detrimental effect on them getting this correct) then the budget assumes we can sell more than this number, however need to look at prices of competitors (direct, physical and online), need to make sure that the cost price is < $75,

The Ratios provided indicate the possibility of good profits for the expanded business, however, as these are budgeted, not actual, they are based on assumptions such as:
• The number of sales – if sales fail to meet the targets, the NPR and ROR on OE will fall
• The average selling price – if we have to lower our selling price, GPR, NPR and ROR on OE will fall
• The Cost of Sales – if the cost of buying stock increases the GPR, NPR and ROR on OE will fall
• Ability to attract finance – the whole expansion will fail if we aren’t able to borrow or obtain the extra $200,000 in funding
• Cost of overheads – any increase in the budgeted expenses will impact on the NPR and ROR on OE.
• Change in pricing
  • Reducing costs, particularly interest by getting equity finance.
  • Delay purchase of new equipment.
  • Reduce drawings by owners.
  • Reducing advertising – use of social media to reduce costs.
• Rate of return on owners equity with bank finance profit will be more than with equity finance.
• Net profit ratio
  • As there are substantial surpluses (apart from the first quarter) the bank balance increases. This should be used to pay off the loan and hence reduce the interest expenses.

Question 13

(a) (i)

Strengths

Lack of direct competition due to location and high cost of entry
Research completed
Interest in environment
World Heritage protection and setting
Superior facilities
Niche market attracts higher paying customers.

Weaknesses

Borrowings
Lack of qualified staff
Remote location – costs of getting products and customers to location
Continual maintenance
Government regulations – cost and strictness
Operating in a niche market

Opportunities

Possible upturn in international economy
Market to Asian, US and Euro markets.
Introduction of new technologies to deal with waste on site, reduce costs
Create partnership with education facilities to set up training for staff in such settings

Using indigenous people and indigenous foods

**Threats**

**Economic downturn**

Increase in interest rates

$A increases

**Environmentalist groups**

Change in government policies and laws

Carbon tax – cost of inputs

Runway being externally controlled, inability to get the government to upgrade the runway

(ii) Rate of Return on Owner’s Equity: -\(\frac{10000}{922000} \times 100 = -1.08\%\)

The business made a loss, factors impacting on this include:

- Reduced Sales and increased cost of sales
- Increases in ALL expenses

(b) (i)

**Management of current financial position:**

- Need to address Loss otherwise any cash injection will be lost over time
- i.e. increase revenue (prices, number of customers) – need to market the business
- Decrease costs – (reduce borrowings, wages, reduce waste costs – ie reduce packaging, recycle, reuse, introduce technology)
- Look at ways to restructure balance sheet – increase owners equity (new owners – perhaps someone with international experience and exposure so you could piggy back from their advertising, injection of capital by present owners)
- Consolidate bank overdraft (which has high interest) into bank loan (lower interest rate)

**Obtaining funds to upgrade facilities:**

- Attract other investors for a stake of the business.
- Owners to contribute more capital.
- Defer decision to expand to generate more cash from retained profits.
- Lease some of the assets rather than purchasing them outright.
- Strategic links with other businesses who deal in similar markets – eg airlines, cruise ships, perhaps bank loan from a financial institution with overseas headquarters or one wanting to overcome negative environmental links (eg ANZ)
• Get leading technology firm who want to demonstrate their technology works in pristine environment to partner with new facilities and the expansion
• Approach the government to upgrade the airstrip

Management of the financial and other influences:

• Ways to manage other influences – borrowing finance off shore (ie off setting high Australian dollar and its impact on other costs) ie a sort of hedging.
• Market online and use social media.Try to use local suppliers to avoid currency fluctuations.
• As most clients are going to be wealthy, with an environmental bent, encourage them to offset their carbon footprints by buying carbon offsets.
• Bring in workers from overseas – their language skills would also help to keep Non-English speaking guests happy.

(ii)

To attract domestic tourists

The figures show a decrease in tourists coming from most States (other than QLD and WA). Students need to make some suggestions as to how to attract more interstate visitors. Further information could be gained from primary market research data and an analysis of the market.

Students should use the elements of the marketing mix to discuss strategies under the headings of

Product what packages and added experiences for customers, branding, style and quality of service

Price – Pricing strategy, discounts for extra components added to the package (bundling), seasonal pricing, volume discounts and wholesale pricing by larger online booking agencies.

Place – Distribution via tourism retailers, online wholesalers, direct online bookings.

Promotion. They need to focus on the cost and effectiveness of the types of promotion in generating sales (e.g. TV, radio, social media, google, magazines, newspapers, billboards, travel agencies (Harvey World Travel, Flight Centre). It would be a good idea to engage a consultant with a lot of experience in promoting these types of holiday destinations so that the most impact is made from whatever course of action is chosen.

To attract overseas tourists

The figures show an increase in overseas tourists to Australia, but a decrease in those coming to Tasmania.

Look for government funding (particularly Federal government) for overseas advertising and engage a consultant or find a government agency that assists businesses with overseas sales.

Look to hosting famous environmentalists and green celebrities e.g. Attenborough, Suzuki, Cousteau
TASMANIAN QUALIFICATIONS AUTHORITY

BST315111 Business Studies

ASSESSMENT PANEL REPORT

Award Distribution

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Student Distribution (SA or better)

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