

## Business Studies

Course Code: BST315116

### Section A

#### Overview:

Generally it seems far more students chose the first option in each section. This may have been a natural tendency to select the first one available and may not have been the best option; as several students began and then stopped to change questions, losing valuable time.

#### Question 1:

Responses were varied but this question was generally done very well or very poorly. Many candidates did not adequately address the second component of the question. Poor responses did not correctly identify internal influences, and did not discuss them. Many responses did not discuss changes in both, only one influence. Poor responses also did not correctly identify a stakeholder.

#### Question 2:

Attracted a broad range of responses relating to Quality Control. Poor responses did not define quality control along the lines of 'inspection and testing' but confused it with Total Quality Management and Quality Assurance in general. Poor responses also had little depth and meagre language terminology when discussing benefits.

#### Question 3:

Wide variation in responses – either completed very well or very poorly. Candidates were able to obtain several marks for naming and describing elements of a target market. Most candidates attempted to address the second part of the question, some very well and most to a moderate depth. However, poor responses confused variables for segmenting consumer markets (HC p.198) with approaches to identify a target market (HSC p.183).

#### Question 4:

Most candidates named and described three strategies, though some confusion with pricing methods was evident in many responses. Again, several marks were available for the first part of the question, and this was generally done very well. Some candidates did not address the second aspect in any depth and poor responses either had limited knowledge of the concepts or confused pricing methods with pricing strategies.

#### Question 5:

Generally done well. The openness of the question allowed students to discuss a range of issues. Most candidates were able to describe three responsibilities. Some were then able to successfully draw links to positive business culture. Poor responses generally repeated themselves, used poor terminology and lacked depth.

#### Question 6:

Generally done very well. There was broad scope for responses and these were varied. Poor responses related to lack of precise terminology and depth of response. There was a lot of repetition and some students didn't provide analysis of how the actions drive staff retention.

#### Question 7:

Generally addressed well. Although the vast majority understood the principle, many candidates found it difficult to achieve higher marks when discussing corporate social responsibility. Poor responses related to confusing specific financial objectives (HSC p.256) and general business goals (Prelim Text p.147) which lead to difficulty in adequately contrasting with a CSR goal. Examples were used in most cases.

### Question 8:

Generally attracted good responses. Poor responses resulted from not giving specific advantages and disadvantages but rather generic and vague information. This led to a lack of ability to explain how debt finance could be used to improve profitability. This was also the last question and many students may have rushed their answers omitting comprehensive responses.

## Section B

### Overview

Most students handled this section well and there was a reasonably equal distribution chosen questions.

### Question 9

- (a) Some students did not correctly categorise fixed and variable costs. In addition many students did not calculate wages correctly and there were many variations of incorrect interpretations.
- (b) Many students missed the need for a year to month conversion i.e. \$50,000 → \$4166.67
- (c) Some students did not include a discussion of both calculations (from both question (a) and (b)) in their answer.
- (d) Several students discussed sales, and a way to improve sales, rather than the two costs.
- (e) There were many ways to calculate this. An algebraic approach appeared the most accurate. The many and varied ways to approach this question were compounded by the requirement for students to calculate with months and years.

### Question 10

Students who did not recall how to distinguish between net and gross profit, and how to calculate these did not do well in (a) and (b). Overall, many students' lost easy marks for incorrect notation, rounding and decimal places.

In (d) some students used COGS in isolation. It is important to read the case study and relate responses to it. A lack of understanding of COGS and its relationship to sales was evident in several responses.

In (f) some students recommended reducing the wages of staff; however businesses cannot just reduce the wages of staff. They may however analyse staffing requirements with a view to reducing overall wages expenditure.

### Question 11

Many students had trouble understanding the Debt to Equity ratio of 120%.

- (a) For Trend 1 – Debtor's Collection Period students' confused debts owed by business with clients owing funds to business (debtors).

Several students did not understand the Debt to Equity (Gearing) ratio and, therefore, were unable to identify that the downward trend in this ratio was a positive thing for Trend 2 – Financial Stability.

- (b) Factor 2 – Stability presented challenges for many students who did not connect 'stability' with the Debt to Equity (Gearing) ratio, despite this being stated on the External Examination Information Sheet. Students should have included a discussion of decreasing liabilities and/or increases in equity.

Students had better responses to (c) and (d).

- (e) Many students did not understand market share and confused it with shares (of ownership) making a correct response to (ii) difficult.

## Section C

### Overview

A number of students answered by recommending rather than analysing in this criterion 3 section. There was also a lack of business terminology used in their analysis and explanations.

### Question 12

- (a) Generally answered well. Some students described Debbie's promotional strategies and why they did not work rather than addressing the problems that these ineffective promotional strategies have caused.
- (b) This question asked students to identify and analyse the problems if a target market is not identified accurately. A large number of students did not reflect the question back to the scenario, perhaps due to the wording of the question. A generic response was accepted but full marks were not awarded. This question was not answered well.
- (c) Students who identified the current products and then wrote about their impact upon the business performance achieved the best result. There was a lot of repetition of earlier writing. Not enough wrote about the impact on the business performance – a lack of analysis. Few students acknowledged that the main 'product' in this case was a service.
- (d) Students could pick up marks here if they correctly identified and analysed the social media strategies. A lot of students did not show knowledge of this term and form of marketing. Some students who did not have marks elsewhere picked up full marks.
- (e) The implications of economic issues was not handled well but this question was a good balance within Q12. Students needed to critically analyse both issues for full marks.

### Question 13

Many students made too many assumptions in their approach to this question, and did not read the stimulus carefully. Cash flow being poor does not mean that employees are underpaid, paid below award rates or not paid if sales are low. Statements such as these demonstrated that students are not relating their knowledge to the Fair Work Act, National Employment Standards, etc.

- (a) Some students mentioned that employees may be put off by the businesses poor cash flow or low sales. Potential employees would not usually be privy to this information (particularly given the company is private, rather than public). It would be better to say that perhaps the business is unable to offer competitive monetary and non-monetary benefits. Better responses specified whether the problems they outlined related to attracting staff or retaining staff.
- (b) Some students asserted that employees were being underpaid. This was not mentioned in the case study. Students wishing to utilise this as a possible cause needed to say 'may have been' underpaid. Q12 said 'lower cost competitors'; students interpreted as low wages. Generally poor use of business terminology in this question. Some students discussed the consequences of poorly trained and unmotivated staff rather than the causes.
- (c) Some students stated that the business was not making a profit so could not give employees a 'raise'. These responses did not demonstrate understanding of the question or concepts involved. Responses needed to identify and evaluate the impacts of high staff turnover in business performance; rather than outlining the causes of high turnover. Better responses discussed the costs involved in selecting and recruiting; training and developing staff; as well as impacts on productivity and business culture.
- (d) Many students demonstrated a poor use of terms e.g. managers/employees/customers are happy, friendly, fun. Answers around the 'Local community' investing in the business / shares were not appropriate. Some

interpreted as 'how to develop a positive business culture' so their answers took a different tangent. Students were not clear on the wording of this question – the word 'implication' seemed to throw students off.

- (e) Many students attempted to use environmental implications when discussing 'social' implications. Those which could be considered 'social' i.e. related to a community concern / impacted the community were accepted. Better responses were more focused on 'social' e.g. diversity – backgrounds, cultures, translator for EAL people. Many students answered 13 (e) which required an analysis of the social and ethical issues by repeating what they had said in 12 (e) which related to environmental issues – students need to read questions carefully. Subheadings were useful for this question. Given the course emphasis on CSR students did not demonstrate a strong understanding.

## Question 14

- (a) Generally well done. Better responses had an operations management focus.
- (b) There were varied responses to this question; depending on whether students interpreted the question correctly. Some discussed the 'problems' associated with declining sales and lower customer satisfaction; rather than the 'causes' which were required.
- (c) The responses to this question were varied, with many students not able to demonstrate a thorough understanding of Total Quality Management (TQM). Better responses were well structured, discussed the impacts of adopting both innovation and TQM on the business and clearly explained the concept of TQM as part of this discussion.
- (d) Some students did this very well and others very badly. Students who had not received many marks elsewhere received full marks here. The key was to clearly identify the challenges while demonstrating an understanding of TQM and continuous improvement. Many students focused on how to address these challenges; going beyond the scope of the question.
- (e) This question combined the two components in this type of question that students struggled most with – 'social' and 'economic'. Students seem more comfortable with 'ethical' and 'environmental'. As such, this question was generally poorly attempted. Students need to develop their understanding of social and economic implications for business and appropriate examples to use in a question such as this.

## Section D

### Overview

Many students were clearly rushing their work by the time they attempted this Section. Other students attempted both questions in this Section, which was not an effective use of their time. In addition it was unfortunate that many students did not complete the Criterion 2 questions in this Section, bringing their result for this Criterion down. Students may also have benefited from having the SWOT analysis on one page instead of split over two, as this proved an obstacle for some. Several students also had difficulty with transcribing the correct numbers for ratio analysis into formulae where financial statements were on a different page to the answer space provided.

SWOT analysis in each question was generally done well, though students should avoid one word responses and be sure that they clearly explain each Strength, Weakness, Opportunity and Threat e.g. 'Good Location' is not adequate – why is it good? A better response would be Good location due to high level foot traffic.

### Question 15

- (a) Generally done well. Some students did not understand the term 'Staff Turnover' and incorrectly classified 'High Staff Turnover' as a Strength. Usually this is not the case, as higher staff turnover means higher costs associated with recruitment, training and development; and may impact negatively on business culture. Some students also said that the apps being free for the first year was a Weakness –

students need to make the link to potential cash flow problems stemming from this. Some utilised it as a Strength by explaining its effectiveness as a promotional strategy.

- (b) & (c) Students generally struggled with these questions, perhaps not having read it properly. Many students simply expanded on what they had said in the SWOT, describing the opportunity or threat and its effects on the business rather than suggesting a strategy to take advantage of / address each opportunity / threat; as directed.
- (d) There was a wide range of responses to this question. Better responses were more detailed, customer focused and used business terminology.
- (e) Students struggled with this question; perhaps because they were rushing or did not read the question. Some students wrote a job ad, others a job description and others gave a very brief outline of placing an ad, interviewing and hiring staff. Better answers discussed job design and the development of a job description, outlined the qualifications and skills required, discussed skills testing and assessing the need for training and development.
- (f) Generally done well, though some students mentioned pricing methods rather than strategies. A commonly mentioned pricing strategy was bundling, something students seem familiar with. Other strategies mentioned were psychological pricing, price points, loss leader and price penetration.
- (g) Generally done well, though with a tendency toward being too brief. Students should always explain their strategies.
- (h) Many students lost marks due to incorrect notation or rounding. A vast number of students skipped this question. In (iii) many students did not clearly demonstrate an understanding of financial stability.
- (i) Students who attempted this question chose to focus on ethical implications, often ignoring or giving a token response to the economic implications. As marks were evenly split between these two elements students who did not address economic implications could not achieve full marks. Many students were confused and discussed only the possible impacts on the business' internal financial position.

### Question 16

- (a) A common misconception by students was the growing consumption of bakery goods by the Chinese. More than half assumed this meant it was a viable export option for the bakery as an Opportunity. Allowances were made for the idea (it does reflect knowledge of the theory - exporting is definitely a new market), however it wasn't a truly viable option for a local, small business running at a loss. Students who suggested they target branding and the store marketing towards Chinese tourists (or individuals of that nationality in Australia) achieved a better result. Students that gave short answers such as 'Net loss' (as a weakness for example) were only awarded half marks. Full marks required students to give fuller answers such as, "Business is not profitable as a result of net loss".
- (b) Mostly well attempted by students.
- (c) Mostly well attempted. There were some unviable answers, "Call China", "Sell to China", "Move the bakery to China". Again, this was a result of the misunderstanding that exporting was a good option for the business.
- (d) Average outcomes for this sub-question. Some students wrote the mission of the business in terms of repositioning and not the overall vision and aim of the enterprise. Such as, "To overcome losses and rebrand the business towards the Chinese market." Around 20% did not attempt this well.
- (e) Mostly well attempted.

- (f) & (g) These questions were difficult for students to differentiate; many missed that (f) was asking students to provide promotional strategies while (g) was looking for product strategies. Some students stated the same strategies for each question. Very few students did this perfectly.
- (h) (i)-(ii) Well attempted.
- (iii) Comments on profitability were mostly correct. More than 30 or 40% of students made financial stability comments without justifying their relationship. For example, it is true that a more liquid business is probably more profitable (especially if the liquidity is a result of additional Cash being brought in via Sales), as is a more solvent business, but some students did not draw this connection.
- (i) Quite well attempted. The impact on social welfare and employment/unemployment was well discussed. Environmental impacts were more superficial; some suggesting that they should be wary of building in new areas and disturbing wildlife (this was not suggested in the stimulus). Recycled materials or packaging, environmentally friendly packaging was also mentioned. However, overall, very good results for the question as a whole.
- (j) Very well attempted. Though around 5% of students analysed all options (by advantage and disadvantages) but did not reach a final conclusion. The majority of students could discern an appropriate course of action and provide at least one reason for its viability.

## Suggested Answers

These are suggested answers only and were developed in collaboration with the author of the external assessment, examination critics and the examination marking team. The contributions of these participants, as experts in the content and delivery of the subject, were greatly appreciated. The details within should be viewed as a general (rather than prescriptive) guide to the expectations of the external assessment team for Business Studies in 2016.

Students who comprehensively understood the course content, utilised business terminology to demonstrate their understanding, and had the ability to apply the course content to varied business contexts achieved a better result. In addition, the ability to read and understand the stimulus & questions provided, to structure answers in an appropriate manner, manage one's time and address criteria requirements, were also crucial to an examination achievement that reflected students' capability.

## Section A

### Part 1 – Business Environment / Operations Management

#### Question 1

1 mark for naming each internal influence = 2 marks

1 mark each for describing each internal influence = 2 marks

1.5 marks each for an explanation of how each internal influence affects a stakeholder of a business = 3 marks

1.5 marks each for an explanation of how changes related to the internal influence affect the stakeholder = 3 marks

Students could discuss how both internal influences affect one stakeholder, or one stakeholder for each internal influence.

Internal influences

- Products
- Location
- Management
- Resources
- Business culture

Stakeholders

- Shareholders
- Managers
- Employees
- Customers
- Society / Community

#### Question 2

Explanation of quality control = 4 marks (should mention inspections or checks for defects / problems at various points in production of good or service)

3 marks each for discussion of each benefit of using quality control to improve the production process = 6 marks

Possible benefits

- Lower waste / seconds -> lower costs of production
- Higher quality standards -> increased sales
- Increased sales -> increased revenue, increased profit
- Higher customer satisfaction (quality)
- Use of technology -> new products / innovation
- Reduction in production time
- Reduced costs of production -> increased efficiency / lower cost of labour

- Improved training -> smarter processes, more knowledgeable / diligent employees
- Increase in sales -> higher quality, improved customer satisfaction

## Part 2 – Marketing Management

### Question 3

Three elements must be from the below list, and should be explained: (2 marks for each of these = 6 marks)

- ✓ Demographic
- ✓ Geographic
- ✓ Psychographic
- ✓ Behavioural

Important in the development of promotional strategies because: (4 marks)

- Optimise the use of marketing resources / effectiveness of promotional strategies
- Better understanding of consumer behaviour
- Identification of consumer demands / needs / trends
- Link promotional strategies to reach target market via products, branding, product positioning, promotion, place, pricing strategies
- Identify the size of the market
- Identify segments to differentiate

### Question 4

1 mark for naming each pricing strategy = 3 marks

1 mark each for explaining each pricing strategy = 3 marks

Explain how the pricing strategy aids a business = 2 marks

Explanation of how this would increase sales = 2 marks

Pricing strategies

- Price penetration
- Price skimming
- Loss leader
- Psychological pricing
- Price points
- Dynamic pricing

## Part 3 – Human Resource Management

### Question 5

1 mark each for naming responsibilities = 3 marks

1 mark each for describing responsibilities = 3 marks

Explanation of how these develop a positive business culture = 4 marks

Responsibilities of employers

- To provide meaningful work
- To pay a fair wage, award wage & conditions
- To provide a safe workplace
- Meet requirements of Fair Work Australia and other legislation
- Develop positive business culture
- Good training
- Supportive & safe work place
- Collaboration
- Flat management structure
- Values expectations & beliefs clear
- Management style
- Symbols, rituals within organisation to develop loyalty & productivity
- Increases employee motivation

## Question 6

1 mark each for naming ways to attract or retain staff, 1 mark for describing each = 6 marks  
Explanation of how one of these could minimise staff turnover (increase retention of staff) = 4 marks

Attract / retain staff

- Positive business culture / management style
- Competitive monetary benefits (salary, wages, bonuses, commission)
- Well regarded non-monetary benefits (leave, flexible work hours, family friendly)
- Training & development opportunities
- Offering career pathways (opportunities for advancement / promotion)

## Part 4 – Financial Management

### Question 7

1 mark for naming each financial objective = 3 marks  
1 mark each for describing each financial objective (may include explanation &/or example) = 3 marks  
1 mark for naming financial goal which will conflict, 1 mark for explaining CSR goals, 2 marks for discussion of conflict = 4 marks

Potential financial objectives

- Increase gross/net profit
- Decrease costs
- Increase sales
- Increase share price / value

Conflict with CSR goals →

Essentially cost money to attain these goals (direct costs, indirect costs e.g. time)

- Increase use of renewable energy
- Changes in waste management
- Reduction of pollution
- Use of biodegradable products
- Supporting a charity
- Buying local
- Buying fair trade products → social justice
- Provide local employment (potentially higher cost labour)

### Question 8

2 marks for each advantage and disadvantage (1 for naming, 1 for describing) = 6 marks  
Explanation of debt finance and explanation re: increasing the profitability of a business = 4 marks

Advantages

- Increase size of business / Expansion
- Take advantage of opportunities
- Increase profitability
- Maintain control of business (as distinct from equity finance)

Disadvantages

- Increase in risk
- Negative affect on financial stability / financial position
- Increased expenses (cost of interest)
- Increasing profitability of business
- Increased assets can increase profits (leveraging assets, income producing assets = increasing profitability)

Possible explanations of how debt finance increases profitability of business

- Discussion of leveraging / gearing for business success -> taking up profitable opportunities without depleting owner's equity (maintaining financial stability), works when profits made are greater than the interest payable on the debt finance.
- Short term debt finance to fund day to day business (provide working capital) could ensure a business is profitable (alternative is depletion of capital, ceasing operation, sale of profit making assets, etc.)
- Long term debt finance to purchase profit making assets such as buildings, land, plant & equipment e.g. relocation to a more profitable area, purchase of cost saving machinery / technology to drive innovation (sales and profit)

## Section B

### Question 9

(a)

<u>Fixed costs</u>	<u>Variable costs (per pizza)</u>
Rent \$3 500	Raw materials \$9
Other overheads \$4 000	Wages \$3
Total \$7 500	Packaging \$0.50
	Total \$12.50

$$\begin{aligned}
 \text{BE Point} &= \frac{\text{Fixed costs}}{\text{Selling price} - \text{Variable costs}} \\
 &= \frac{7\,500}{20 - 12.50} \\
 &= \frac{7\,500}{7.50} \\
 &= 1\,000 \text{ units or pizzas per month}
 \end{aligned}$$

(b)

$$\begin{aligned}
 \text{BE Point/month for desired profit of } \$50\,000/\text{year} &= \frac{\text{Fixed costs} + (\text{Desired profit} / 12)}{\text{Selling price} - \text{Variable costs}} \\
 &= \frac{7\,500 + (50\,000 / 12)}{20 - 12.50} \\
 &= \frac{7\,500 + 4\,166.67}{7.50} \\
 &= \frac{11\,666.67}{7.50} \\
 &= 1\,555.55
 \end{aligned}$$

$$= 1\,556 \text{ units or pizzas per month}$$

(c)

Overall - Not positive

Only 1200 pizzas have been sold in the past month

- This is more than the break-even point of 1000 units, therefore the business is making a profit (positive)
- However, it is less than the break-even point of 1556 units a month required to meet the desired annual profit of \$50 000 (not positive)

(d)

Lower other overheads (phone, electricity, etc.)

Lower rent by moving to another location

Lower wages by utilising more casual staff, younger staff, simplifying production (cutting wages / time per pizza)

Lower other variable costs i.e. raw materials and packaging

To make a minimum profit of \$50 000 per year, given sales a month of 1 200 pizzas a month:

We know that 1 556 units / pizzas per month ensure a profit of \$50 000 per year

$$1\ 556 - 1\ 200 = 356$$

$$\text{Contribution margin} = \text{SP} - \text{VC} = 20 - 12.50 = 7.50$$

$$7.50 \times 356 = 2\ 670$$

$$\text{Fixed costs must be reduced by } \$2\ 670, \$7\ 500 - \$2\ 670 = \$4\ 830$$

To double check our logic (not required in answer):

$$\begin{aligned} \text{BE Point/month for desired profit of } \$50\ 000/\text{year} &= \frac{\text{Fixed costs} + (\text{Desired profit} / 12)}{\text{Selling price} - \text{Variable costs}} \\ &= \frac{4\ 830 + (50\ 000 / 12)}{20 - 12.50} \\ &= \frac{4\ 830 + 4\ 166.67}{7.50} \\ &= \frac{8\ 996.67}{7.50} \\ &= 1\ 199.556 \\ &= 1\ 200 \text{ units or pizzas per month} \end{aligned}$$

(e)

#### Option 1

To make a minimum profit of \$50 000 per year, given sales a month of 1 200 pizzas a month:

We know that 1 556 units / pizzas per month at a selling price of \$20 each ensures a profit of \$50 000 per year

$$1\ 556 - 1\ 200 = 356$$

$$\text{Contribution margin} = \text{SP} - \text{VC} = 20 - 12.50 = 7.50$$

$$7.50 \times 356 = 2\ 670$$

Sales revenue must be increased by \$2 670 or  $2670 / 1\ 200$  per pizza = \$2.22

Therefore the new selling price is  $\$20 + \$2.22 = \$22.22$  per pizza

#### Option 2

We know that (from the calculation in (b));

$$\begin{aligned} \text{BE Point/month for desired profit of } \$50\ 000/\text{year} &= \frac{\text{Fixed costs} + (\text{Desired profit} / 12)}{\text{Selling price} - \text{Variable costs}} \\ &= \frac{7\ 500 + (50\ 000 / 12)}{20 - 12.50} \\ &= \frac{11\ 666.67}{20 - 12.50} \\ &= 1\ 556 \text{ units or pizzas per month} \end{aligned}$$

If we now want to achieve the same desired profit and keep costs constant, but with a break-even point of 1 200 pizzas we need to find a SP to achieve this,

Therefore,

$$\text{If } 1\ 200 = \frac{11\ 666.67}{\text{SP} - 12.50}$$

$$1\ 200 (\text{SP} - 12.50) = 11\ 666.67$$

$$1\ 200 \text{ SP} - 15\ 000 = 11\ 666.67$$

$$1\ 200 \text{ SP} = 11\ 666.67 + 15\ 000$$

$$1\ 200 \text{ SP} = 26\ 666.67$$

$$\text{SP} = \frac{26\ 666.67}{1\ 200}$$

$$\text{SP} = 22.22$$

$$\text{SP} = 22.22$$

The selling price per pizza for a profit of \$50 000 a year with a break-even point of 1 200 a month is \$22.22.

Other options – there are a number of options involving more direct algebra (not taught in the course), other options involving the BE point formula & logic around break-even are all acceptable – as long as the student can demonstrate that they understand how they have calculated the correct answer and show all working.

### Question 10

	2015	2016
(a) Calculate the <b>Gross Profit Ratio</b> for 2016 (2 marks)  1 mark for correct answer 1 mark for correct workings (½ mark off for incorrect rounding, % or ratio)	50%	Gross Profit Ratio = Gross Profit / Sales Gross Profit = Sales – COGS GPR = $\frac{(440\,000 - 230\,000)}{440\,000} \times 100$ = 47.7272 = 47.73%
(b) Calculate the <b>Rate of Return on Owner's Equity</b> for 2016 (2 marks)  1 mark for correct answer 1 mark for correct workings (½ mark off for incorrect rounding, % or ratio)	10%	RROE = Net profit / OE Net profit = Gross profit – expenses RROE = $\frac{(210\,000 - 200\,000)}{300\,000} \times 100$ = 3.33 % or 3.34 %
(c) Calculate the <b>Current Ratio</b> for both years (2015 and 2016) (4 marks)  1 mark for correct answer 1 mark for correct workings (½ mark off for incorrect rounding, % or ratio)	Current ratio = CA / CL = 200 000 / 150 000 = 1.33 : 1 or 1.34 : 1	Current ratio = CA / CL = 120 000 / 140 000 = 0.857 : 1 or 0.86 : 1

(d)

Possible factors = 2 marks each (1 mark to identify, 1 mark to explain)

- Reduction in sales
- Same level of expenses
- Increased COGS as a proportion of sales (GPR)
- Reduction in RROE

(e)

*Conclusion about profitability:*

- Profitability decreased
- Lower GPR, RROE, also Net profit ratio
- Below desired level of 15%

*Conclusion about liquidity:*

- Decreased in 2016
- Below desired level of 2:1 in both years
- Able to meet short term obligations in 2015 (at least 1:1 at 1.34:1)
- Unable to meet short term obligations in 2016 (below 1:1 at 0.86:1)

(f)

Possible Strategies (2 marks each)

- Increase marketing expenditure to increase sales
- Change sale price to increase sales (revenue or volume)
- Decrease costs (overheads) e.g. outsourcing, employ casuals to reduce wages, change suppliers or buy online

## Question 11

(a)

*Trend 1 – Debtors' Collection Period:*

- Debtors collection period has decreased, fewer days for collection of accounts receivable
- Down from 48 days in 2014 to 45 days in 2015 and again to 43 days in 2016
- Has stayed above the industry average from 2014 to 2016
- Positive outcome

*Trend 2 – Financial Stability:*

- Decreased from 120% in 2014 to 90% in 2016
- Equal to the industry average in 2014, drops below this in 2015 and 2016
- Now below accepted level of \$100 / 100%

*Trend 3 – Profitability:*

- Increased profitability (though dip in 2015)
- Above accepted minimum of 15% (RROE)

(b)

*Factor 1 – Debtors' Collection Period:*

Improvement in accounts receivable processes = 1 mark

- offering incentives for prompt payment
- penalties for late payment
- phone and mail reminders promptly given as appropriate
- ensuring that payment can be made quickly and easily
- reduction in number of days / credit terms

*Factor 2 – Stability:*

= 1 mark

*Factor 3 – Profitability:*

= 1 mark

(c)

*Statement 1 – Profitability:*

= 1 mark

*Statement 2 – Debtors' Collection Period:*

= 1 mark

(d) (i)

Presentation of conclusion = 1 mark

Interpretation of conclusion (clear explanation of what this means for the business) = 2 marks

(ii)

Presentation of conclusion = 1 mark

Interpretation of conclusion (clear explanation of what this means for the business) = 2 marks

(e) (i)

Possible strategies: (1 mark to identify, 2 marks to explain = 3 marks)

- Offer competitive monetary benefits
- Offer competitive non-monetary benefits
- Keep up with what competitors offer staff
- Maintain a positive business culture / staff morale / employee motivation
- Maintain a safe work place
- Maintain a work environment which is healthy & pleasant to be in (physical spaces, amenities, etc.)
- Offer training and development opportunities
- Offer career pathway (promotion, succession planning)

- Promote work life balance, flexible working conditions

(ii)

Possible strategies: (1 mark to identify, 2 marks to explain = 3 marks)

- Increase marketing expenditure
- Decrease sale prices
- Introduce new lines of goods
- Change marketing strategies
- Target new market segments
- Complete market research in order to tailor 4 P's to consumer demands / needs
- Explore businesses competitive advantage & review strategies around this (focus, differentiation)

## Section C

### Question 12

(a)

Possible Problems: (2 marks each, 1 for naming, 1 for explaining)

- Lack of cash flow
- Low sales volume and/or revenue (40% below budget)
- Costly bikes have not been hired out consistently
- Increased competition, lower costs
- Ineffective TV advertising, depletion of resources for ineffective promotion, customers unaware
- Lower market share
- Cancellation of tours due to small numbers (direct & indirect costs of this)
- Failed to attract new 'novice' mountain bike riders
- Few repeat customers
- Difficulties for customers in finding accommodation & places to eat & drink (possible issue with location, products offered)

(b)

Poorly identified target market in terms of demographic, psychographic, geographic and behavioural. Each of the problems - 4Ps highlighted and explained with respect to Debbie's business

Students could explain 2 problems (noting the question asks for 'problems') in some detail for 5 marks, or a greater number of problems in less detail for 5 marks. Some analysis required for full marks.

- Poorly targeted advertising strategies in terms of TV campaign
- Not attracting novice riders
- Cost of hire is too high for novices?
- Current riders bring their own bikes
- Inability to implement marketing plan
- Inability to develop an effective marketing mix (product, price, promotion & place)
- Inability to attract profitable market segments
- Inability to develop market share
- Ultimately a lack of sales revenue, low profitability, declining financial stability, possible business failure

(c)

Possible product identification, analysis & impact:

Currently offers two products (mention of the service here) – hire of bikes, tours

- Positioning and packaging
- Decision to provide more expensive high quality bikes has not been effective as lower cost competition with lower quality bikes have penetrated the market
- Some tours have been cancelled which damages Green Derby's reputation as a reliable business
- Lack of food and accommodation built in to the product

(d)

Possible social media strategies & their ability to attract more customers

Facebook page

- ✓ Encourages sharing/likes, establish connections with other mountain biking & healthy lifestyle Facebook pages
- ✓ Respond regularly, develop dialogue with consumers to ascertain their wants/needs
- ✓ Encourage reviews & feedback
- ✓ Utilise, distribute surveys for market research
- ✓ Create regular updates / content (pictures of bikes, tours, Tasmanian landscape)
- ✓ Create web page and have a link to the Facebook page
- ✓ Run competitions to encourage traffic on Facebook page & reviews

Twitter / Instagram account

- ✓ Post pictures & encourage subscribers
- ✓ Promote natural beauty of Tasmania and the new mountain bike tracks that have recently opened
- ✓ Create regular updates / content (pictures of bikes, tours, Tasmanian landscape)
- ✓ Encourages sharing/likes, establish connections with other mountain biking & healthy lifestyle Facebook pages

YouTube channel

- ✓ Post videos & encourage subscribers
- ✓ Promote natural beauty of Tasmania and the new mountain bike tracks that have recently opened
- ✓ Visual & audio possibilities as well as the chance to share videos of the Green Derby Facebook Page and further connect with interested and existing customers

Advertising on social media

- ✓ Advertise to specific market segments
- ✓ Reach a wide audience

Trip Advisor, Google AdWords, Pop ups, #Hashtags

(e)

Environmental issues

An increase in the use of the trails may result in:

- Degradation of the track and surrounding habitat
- Loss of habitat for local fauna / animals
- Destruction of local flora / plants
- Increased rubbish and/or pollution on the trails & nearby waterways (if waste not properly disposed of)
- Frustration of environmental and conservation groups which could lead to negative publicity

Economic issues

- Cost of bikes may be too expensive to encourage customers (what is the market price? Demand = supply)
- Is there a highly skilled workforce in the North West Coast to ensure that she has capable employees to work with her in building Green Derby?
- Can she retain employees to work in remote areas given the remuneration they may demand?
- Impact on the local community's economy if her business should fail (increase in jobs for locals if labour available)
- Increase in money in the community, increase in expenditure benefits other businesses
- Increase in tax revenue for government
- Are there enough visitors to the area to support the business financially?

## Question 13

(a)

Possible problems:

Attracting staff

- Attracting highly skilled staff from outside of the area due to a lack of suitable accommodation
- High cost of bringing staff in (attractive remuneration, subsidising / provision of accommodation)
- Lack of opportunity in local areas (has led to shortage of potential employees)
- Lack of skills / training in local area (Skilled candidates in short supply)
- Competitors offer better monetary and/or non-monetary benefits

Retaining Staff

- Poor recruitment and/or induction processes fails to attract appropriate staff / equip employees for their role
- Low staff morale / motivation / satisfaction (customers, remoteness, working conditions, high turnover)
- High staff turnover (low morale, working conditions, location)
- Dissatisfied customers (effect on employee motivation, job satisfaction)
- Lack of opportunity (for promotion etc.) offered by employer
- Lack of skills / training & development offered by employer
- Lack of job security (employees concerned business may fail)

(b)

Possible causes:

- Lack of opportunities
- Lack of education and on the job training
- Overwork / too many tasks
- Negative business culture
- Wrong people employed (poor acquisition)
- No job analysis / ineffective job design
- Poor induction processes
- Little in the way of performance appraisal processes
- Few / no promotion pathways
- Lack of flexible working hours
- Lack of staff accommodation
- Lack of staff amenities / activities in local area
- Attraction of competitors businesses, offering better pay and conditions
- Poor monetary and/or non-monetary benefits
- Lack of connection to the business, not feeling empowered or part of the team
- Unfair dismissal of colleagues

(c)

Possible impacts:

- Loss of corporate knowledge, constant need to induct and re-train
- Decrease in staff morale
- Loss of staff to competitors resulting in insider knowledge moving to competitor
- Increased recruitment / acquisition costs (higher expenses)
- Decreased customer satisfaction (reduced sales), due to inexperienced or poorly motivated staff
- Decreased repeat customers (as above)
- Increased redundancy costs
- Increased training costs
- Reduced productivity for existing staff

(d)

Managers

- Empowered and motivated staff, willing to work hard and connect / engage closely with customers
- Less stressful

- More time spent managing rather than in recruitment and inducting new staff
- Able to act more strategically (proactive rather than reactive)
- Able to delegate responsibilities
- Staff absenteeism may be reduced, Staff may be more productive (positive for Manager)
- Increased collaboration
- Increased productivity / motivation amongst staff
- Increased customer satisfaction / repeat business

#### *Local community*

- A successful business culture could support surrounding businesses with an increase in tourism and leisure pursuits in the area
- Increased satisfaction / happiness with the business
- Decreased staff turnover → stability in the community
- Other business setting up / suppliers increase economic activity & diversity in community

#### *Employees*

- Feel connected to the business and empowered to work hard, increased intrinsic motivation
- Possible increase in productivity
- Fulfilling personal goals and see individual growth opportunities
- Increased motivation / satisfaction
- Increased output
- Increased income
- Increased chance of promotion

(e)

#### Social implications

- Provide for potential needs of new workers, such as family
- Ensure workplace environment caters for the potential diverse needs of new workers
- Debbie could contribute to an increase in sports / activities in the local area (increased social interaction / community events)

#### Ethical implications

- Deal with new employees fairly and honestly
- Ensure that jobs descriptions match the reality
- Truthful in acquisition process both from employers / employees
- Promises of permanent work / promotional pathway
- Discrimination of women / disable (for example)
- Provision of safe working conditions
- Should not pay below award wage rates
- Honest in all advertising & marketing material
- Act with integrity and transparency with stakeholders e.g. local community

## **Question 14**

(a)

#### Possible Problems

- Declining sales (& profit)
- Lower customer satisfaction → decrease in profit
- Rate of recalls negatively impacts cash flow, increases work load
- Cash flow problems → reduced ability to pay suppliers employees
- Upgrade of machinery / technology postponed
- Low demand for older style products produced by existing machinery → decrease in profit
- Poor liquidity affecting production / ability to meet consumer demands / be profitable
- Aging workforce, need to plan for future recruitment & training needs i.e. workforce / succession planning
- Potential loss of corporate knowledge, need to ensure that corporate knowledge is documented in manuals / guides / instructions / policies before older employees separate from the business (retire)

- Employees are reluctant to change work practices (inefficient use of HR)

(b)

Possible causes:

- Higher rate of recall/returns, lower quality product
- Employees unwillingness to change work practices and improve quality / innovate (can this really be linked to age? I wouldn't make that connection – could be organisational culture)
- Poor liquidity (leading to postponing the purchase of profit generating assets, the new machinery)
- Low demand for current (older style) products, no longer meet consumer needs / wants
- Lack of innovation, lack of technology, outdated machinery
- No quality control, products not at industry standard (if being recalled frequently)

(c)

- Increase customer satisfaction and increased sales
- New customers seeking higher quality products + different products → increase in sales
- Reduced costs of production by reducing wastage / using resources efficiently and reduction in returns / recalls
- Changing culture of innovation + TQM will drive more efficiencies and savings, reduce expenses, improve cash flow
- Requires a focus on continuous improvement by all members of the business; this would require a change in mindset from employees to create defect free production process and to maintain a customer focus
- May require the redundancies of some existing employees, creating an opportunity to refresh the existing work teams (at considerable short term cost)

(d)

*Challenges for Managers (any two)*

- Mindset of older employees → change business culture
- Training and development costs
- Implement new technologies requiring extra investment, training & a change in operational processes
- Need to ensure that employees are empowered to keep the needs of customers at the centre of all aspects of business operations
- Development of processes to implement TQM and continuous improvement , review of existing procedures

*Challenge for Employees (any one)*

- Retrain after years of the same work practices (age?)
- Learn new processes and adjust to change / adapt to new work practices / business culture / technology
- Want to retire / work part time
- Will need to strive to continuously improve their practices, their reluctance to change will be a challenge

(e)

Social

- Loss of jobs in local community, effect on community & social cohesion
- Effect on local businesses, schools, etc. if relocation goes ahead
- Retraining / reskilling employees if relocation does go ahead to equip them to find employment in another industry / sector
- Ensure that entitlements are paid so that former employees can survive while retraining / finding new employment
- Possible to take some employees with the business? Offer jobs if staff are willing to relocate (those staff may be more willing to adapt to new work practices)
- Staying in Tasmania would respect the local community, acknowledge the businesses ties to the community and its importance to them
- Relocating interstate would create significant family challenges and many workers might not be able to leave their established homes and community

Economic

- Increase in local jobs

- Increased income / economic activity in Tasmania
- Increased income for suppliers in Tasmania
- Increased number of more sophisticated jobs e.g. innovation and engineering
- Federal government stance to encourage innovation and high quality products could lead to government support in the form of subsidies, grants, etc. to stay in Tasmania
- Is there a highly skilled workforce to support Teaming Engineering in adopting modern and innovative work practise in Tasmania? Without this they will struggle to innovate and attract new customers, restore faith with existing customers

## Section D

### Question 15

(a)

8 marks available in total

<p>S Possible strengths (2 required, 1 mark each = 2 marks)</p> <ul style="list-style-type: none"> <li>▪ Raised 9 million in capital</li> <li>▪ Attractive to investors</li> <li>▪ Apps free in 1<sup>st</sup> year</li> </ul>	<p>W Possible weaknesses (2 required, 1 mark each = 2 marks)</p> <ul style="list-style-type: none"> <li>▪ Sales revenue low</li> <li>▪ Staff turnover for the product development team is higher than industry average</li> <li>▪ Sales staff costs</li> <li>▪ Run out of funds</li> </ul>
<p>O Possible opportunities (3 required, 1 mark each = 3 marks)</p> <ul style="list-style-type: none"> <li>▪ Seeking partnership with a bank (strong market for finance apps) and knowledge</li> <li>▪ Diversify into educational sector</li> <li>▪ Takeover in future</li> <li>▪ Celebrity endorsement of app</li> <li>▪ Develop new premium features to charge fees</li> <li>▪ Enterprise Content Management (ECM) market size growth</li> <li>▪ Increased purchase of apps for use on mobile devices</li> <li>▪ Growth expected by 14.5%</li> </ul>	<p>T Possible threats (2 required, 1 mark each = 2 marks)</p> <ul style="list-style-type: none"> <li>▪ Competition is strong</li> <li>▪ Economic downturn</li> <li>▪ Customers might prefer more established competitors</li> <li>▪ Constant need to update in an evolving market</li> <li>▪ Customers may never purchase add-ons (can't truly control this therefore justifiable external threat)</li> </ul>

(b)

Possible strategies

- Develop a prototype in conjunction with a bank
- Finding a celebrity
- Spend money to develop new features / new apps
- Employ new staff to create new apps
- Outsource costs to India (lower wages)

(c)

- Keep control of costs to counter economic risks / downturn
- Identify competitive advantages
- Survey market to clarify target market expectations
- Reduce costs by outsourcing to lower wage cost countries
- Ensure sufficient funds are diverted into research and development to enable TASAPPS to remain competitive in a rapidly evolving market

(d) Mission –

- World leader in product / product design / features
- Employ highly qualified staff
- Create / respond to / solve your problems in app
- Responsive to needs of customers
- Collaborative culture
- Highly innovative / cutting edge design /solutions

E.g. TASAPPS aim to provide an innovative product to support our customers diverse budgeting and financial planning needs.

(e) Operations –

Acquisition – Highly qualified, experienced & motivated staff sought, thorough process to develop job description with organisational values embedded, and to ensure a rigorous recruitment process which includes literacy, numeracy and ICT skills tests

Training – Induct employees and ensure they are familiar with procedures and policies, particularly in relation to intellectual property

Maintenance

- Business culture
- Flat management structure
- Flexible working arrangements
- Pathways to promotion identified

(f) Marketing –

1.5 marks for naming & explaining each pricing strategy = 3 marks

1 mark for linking these strategies to the increased sale of Apps

Pricing strategies – see question 4 (Section A)

(g) Marketing –

See question 12 (d) (Section C) for a list of social media strategies

2 marks for each social media strategy recommended (outline strategy & why it will promote the business)

(h)(i)

Required	Ratio calculation
Debt to Equity ratio before expansion (2 marks)	Current situation (prior to any changes) $(1\,650\,000 / 8\,450\,000) \times 100/1$ = 19.53%
Debt to Equity ratio after expansion with extra bank loan of \$3 000 000 (2 marks)	Add \$3 000 000 to Debt $1\,650\,000 + 3\,000\,000 = 4\,650\,000$ Therefore, $(4\,650\,000 / 8\,450\,000) \times 100/1$ = 55.03%
Debt to Equity ratio after expansion with extra capital contribution of \$3 000 000 (2 marks)	Add \$3 000 000 to Owner's Equity $8\,450\,000 + 3\,000\,000 = 11\,450\,000$ Therefore, $(1\,650\,000 / 11\,450\,000) \times 100/1$ = 14.41%

(h)(ii)

TASAPPS can afford to increase borrowings by 3 000 000 as DTE ratio is still below 100% BUT risks are higher

(i)

(i) Economic

- Increase in jobs
- Increase in income
- Increase in returns to investors

Ethical

- Truthful representation of features of apps
- Truthful advertising
- No discrimination of employees in business and outsourced businesses
- Ensure pay and working conditions of any staff in outsourced locations are optimal / fair (employee wellbeing)

(j) Recommendations –

- Raise the \$3 000 000 through an extra bank loan.
  - Raise the \$3 000 000 through additional capital contributions.
  - Not proceed with the extra \$3 000 000 investment.
- 
- Can afford to loan the money if prepared to take the risk
  - Will depend on likelihood of success of generating revenue into the future
  - Safer to acquire more equity
  - Loan funds are cheaper in current economic climate
  - If side business is not made in 2017 the company will run out of money

(1 mark for well-justified decision, minimum of 2 reasons and 2 justifications expected for full marks)

Question 16

(a)

8 marks available in total

<p>S</p> <p>Possible strengths (2 required, 1 mark each = 2 marks)</p> <ul style="list-style-type: none"> <li>● Well established; has been operating for 25 years</li> <li>● Reputation and brand name are positive</li> <li>● Some market research has been carried out to identify new target market; Chinese consumption of bakery food &amp; coffee</li> <li>● Stable financial position; (Over \$1 million in assets, healthy levels of OE to debt)</li> </ul>	<p>W</p> <p>Possible weaknesses (3 required, 1 mark each = 3 marks)</p> <ul style="list-style-type: none"> <li>● Declining sales; decrease in demand, despite reduction in prices</li> <li>● Decline in revenue due to decline in sale prices</li> <li>● Lack of diversity in workforce; males and 50+</li> <li>● Made a \$10k loss in 2015/16</li> </ul>
<p>O</p> <p>Possible opportunities (2 required, 1 mark each = 2 marks)</p> <ul style="list-style-type: none"> <li>● Innovation; whether that be services, product, HR or operational</li> <li>● Frozen dough innovation presents a competitive element (speed and efficiency)</li> <li>● Chinese consumption of bakery food and coffee expected to increase (new target market)</li> <li>● Possible profit \$10k if conditions remain the same (has to say that conditions stay the same)</li> <li>● Sell premises and rent (increase Cash Flow, decrease Non-Current Assets)</li> <li>● Generate a more positive business culture <ul style="list-style-type: none"> <li>● Purchase the frozen dough technology for \$200k; potential to be more efficient</li> </ul> </li> </ul>	<p>T</p> <p>Possible threats (2 required, 1 mark each = 2 marks)</p> <ul style="list-style-type: none"> <li>● Competition in the market</li> <li>● Relocation could damage customer loyalty of those who reside / work nearby</li> <li>● Frozen dough innovation presents a competitive element (speed and efficiency) - could be employed by competition</li> <li>● Changes in the business environment e.g. changes in regulations which would require costly changes, increases in tax or interest rates, changes in economic activity (down turn, recession).</li> </ul>

(b)

(1 mark per strategy and 1 mark for benefit/impact)

- Declining sales; decrease in demand
  - Increase demand via promotional strategy - social media, price penetration (anything to attract)
- Lack of diversity in workforce; males and 50+
  - Hire for diversity; attract female workers etc. Gain the benefit of varied knowledge and experience (could improve culture as well).
- Made a \$10k loss in 2015/16
  - Same as sales above.
  - Decrease expenses, lower COGS (machine could do this over time after the initial outlay).

(c)

(1 mark for strategy and 1 mark for impact/benefit)

- Innovation; whether that be services, product, HR or operational
  - new product/services/innovation could attract more customers. Offer a better service or redefine point of difference (competitive advantage)
- Frozen dough innovation presents a competitive element (speed and efficiency)
  - Increases speed/efficiency and poses competitive advantage
- Chinese consumption of bakery food and coffee expected to increase
  - An additional target market
- Possible profit \$10k if conditions remain the same (has to say that conditions stay the same)
  - If remain the same, the business will at least break-even
- Sell premises and rent (increase Cash Flow, decrease Non-Current Assets)
  - Increase cash flow and provide opportunity to expand (via equipment and operational efficiency; attract more customers)
- Generate a more positive business culture
  - Happy employees can translate to greater productivity and quality
- Purchase the frozen dough technology for \$200k; potential to be more efficient

(d) Mission –

Should outline two of:

- Business objective
- Business service/product
- Point of difference/competitive advantage
- Business history (age); reliable, well known etc.
- Innovation or key aspects of operation
- Location or target market

(e) Operations –

Two factors explained 1.5 marks each = 3 marks OR

Three factors outlined 1 mark each = 3 marks

Should be more than one factor (given the word 'factors')

- Target market nearby or in close proximity
- Accessibility (relates to point above); but also applies to supplying other bakeries with frozen goods
- Parking Space
- Close to their own suppliers for logical reasons; keep costs low
- New (large) machinery requires large building space
- Visibility; easy to see from the street and passers by
- Next to complimentary business i.e. an area where people consume/purchase food
- Cost; must be within the budget <\$60k p.a.

(f) Marketing –

Must not refer to method. Therefore distinction between method and strategy is implied.

- Price Penetration; charges lowest price possible
- Loss Leader; charges below cost
- Price Skimming; charging high price while product is new and in demand

- Price Points; predetermined pricing
- Bundle Pricing; 2 for 1 etc.
- Senior Discount; 5% off for pensioners
- Loyalty discounts; every 10th coffee free

For all, student must identify the benefit - which in all cases, is increased demand, encouraging customers to purchase, which increases market share, turnover and potentially profit.

(g) Marketing –

(1 mark for strategy 1 mark for impact/benefit x2)

- Could be any of the previous answers
- Advertising (specific strategy i.e. social media, tv ad)
- Pricing method/strategy
- Promotional technique

(h) Calculate the following:

Required	Before restructure	Calculation after restructure (forecast profit of \$126 000)
(h)(i) RROE (3 marks)	Calculation completed for candidates  = 14.9%	(Net Profit/Average OE) ×100  126,000/(671,000) ×100 = 18.78%
(h)(ii) Debt to Equity (3 marks)	Calculation completed for candidates  = 50.7%	(Total L/Total OE) ×100  90,000/671,000 ×100 = 13.41%

(h)(iii)

- RROE increased by almost 4%; owners will receive marginally greater return on investment
- New expense; rent not previously paid
- Assume increase in sales OR lower COGS for the accounted increase in RROE
- Increased profit assumed as a result of increased RROE

(h)(iv)

(i)

(3 marks economic, 3 marks environmental, no more than 4 marks for listing without impacts/analysis identified)

- Upturn/downturn in the economy; increase/decrease in demand - could translate to increased sales and increase profit.
  - Business may need to lower costs or improve operational efficiency in downturn
- Wastage; donate the wastage to disadvantaged
- Recycling; use biodegradable packaging, coffee cups etc.

(j) Recommendations –

- Maintain current operations and not restructure the business.
- Sell the building and move into new rented premises and buy new equipment.
- Stay at the old premises and purchase new equipment.

(1 mark for well-justified decision, min 2 reasons and 2 justifications expected for full marks)