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BUSINESS
(YEARLY)

About A LEVEL

period	2016 to 2025
contents	June & November, P1, P2, P3, P4, Worked Solutions
form	Year By Year
compiled for	AS and A Level
special features	Comments

About **Comments**

This reveals the extra/relevant information that are not required as part of the model answers but to enhance the student's analytical skills in answering theory/structured questions.

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JUNE 2024 PAPER 1

Business Concepts 1

Section A (Short Answer)

Answer **all** questions.

Question 1

(a) Define the term *takeover*. [2]

(b) Explain **one** disadvantage to a business of external growth. [3]

Suggested Answer

(a) Takeover is when one business buys another business by purchasing majority of its shares more than 50.1% shares.

(b) One disadvantage of external growth is the clash of working styles between the two businesses. Due to both businesses having different styles of management it becomes difficult for both workers to co-operate and this leads to slow decision making which results in losing market opportunities.

Question 2

(a) Define the term *job description.* [2]

(b) Explain **one** benefit to a business of internal recruitment. [3]

Suggested Answer

(a) A job description is a document that outlines the tasks, duties and responsibilities to be performed in a job. The job description is placed in the job advertisement.

(b) Internal recruitment is relatively less costly as compared to external recruitment. Internal recruitment does not require placing advertisements in newspapers or hiring recruitment agencies so it saves the cost of the business, which can be used in other aspects of the business.

Question 3

(a) Define the term *job production.* [2]

(b) Explain **one** benefit to a business of capital intensive operations. [3]

Suggested Answer

(a) Job production is the customised production of one client's order at a time and the next order is taken only after the first one has been completed.

(b) Capital intensive operations do not require a lot of labour in the production of goods and services. Due to less labour required this will reduce the cost of constantly recruiting labour which means the business will not have to place job advertisements in newspapers or hire recruitment centres saving costs which will help increase profits for the business.

Question 4

Analyse **one** reason why product differentiation may be important to a business. [5]

Suggested Answer

Product differentiation is having a unique selling point that sets the product apart from its competitors.

Product differentiation will help the business set higher premium prices for its products. As the product will not have any close substitutes so the consumers will be willing to pay a higher price as the product will have greater customer royalty. The higher prices will help earn a better profit margin for the business and the higher profits could be used for expansion in the future.

Section B

Answer **one** question only.

Question 5

(a) Analyse **two** limitations to a business of using contribution costing. [8]

(b) Evaluate whether working capital is the most important source of finance for a start-up furniture manufacturer. [12]

Suggested Answer

(a) Contribution costing is an approach that does not allocate fixed and indirect costs to cost and profit centres.

First limitation of contribution costing is that it does not consider fixed costs to a profit centre and calculates the contribution by deducting variable / direct costs only from a profit / cost centre which gives a misleading picture of the profitability and wrong decisions can be taken such as setting under pricing of products that can lead to a very low sales and low profits which would fail to attract future investors.

Second limitation of contribution costing is that the manager of a cost / profit centre would only be concerned with the direct cost and would not be involved or concerned with the fixed / indirect costs. He would tend to be concerned with only making sure that they are giving a positive contribution margin and would ignore the covering of the fixed / indirect cost and this would lead to manager's being less efficient and having less control over the total costs of the business as in contribution costing managers are only responsible for covering the direct costs. Thus this can lead to lower profitability of the business, which would mean less funds for expansion and launching new products.

(b) Working capital is the amount of money needed for the day to day running of the business and the money needed for the payment of short non-current liabilities. Working capital is a measure of the liquidity of a business.

For a start-up business of furniture working capital will be a very important source of finance as new businesses are not given credit by suppliers due to their lack of credit history so the start-up business will need adequate working capital to pay the suppliers on time for the raw material which will mean that the start-up will be able to make the furniture orders on time and this would build a very good brand reputation in front of the customers leading to customer loyalty and helping the start-up to survive in its first year of trading. However by paying the suppliers on time using the working capital the start-up would have cash outflows and there would be lesser cash in the business to meet other expenses such as rents on time.

Working capital will also be important as a source of finance for the start-up business as having adequate working capital will mean that the carpenters and the workers making the furniture will be paid on time and this is important to keep them motivated. Furniture making on small start-up scale is labour intensive and motivated carpenters will make good quality furniture which will help to improve the customer satisfaction leading to higher sales which would make the start-up profitable early on. However, the motivation of the workers will not just depend on the wages being received on time as according to Herzberg's 2 factor theory it is a hygiene factor and workers expect to be paid on time. Motivation would depend on other factors like training, teamwork and leadership styles.

Thirdly working capital availability will allow the new furniture start-up to sell on credit to its customers. By offering customers credit period to pay it would increase the customer orders as they would be getting some time to make the payment. This would help give the start-up furniture a competitive edge, which would help the start-up gain market share. However, the customers would not just be attracted by the credit period they are getting but would also look at other aspects such as the price of the furniture as well as the quality.

It can be concluded that for a start-up furniture maker in the short run having enough working capital and cash will provide liquidity which is very important as in the short run cash / liquidity is very important to set up and run the business because new start-ups are not given loans by banks or credit by suppliers as they do not trust start-up businesses enough. Thus without adequate working capital the start-up furniture business will not be able to survive. However it would depend on the scale of the start-up. If it's a very small start-up than it would not have much working capital and would have to rely on other sources of finance such as hire purchase where it would buy assets on installments or it would need a venture capitalist where it would require a wealthy investor to inject cash into the business to help set it up and produce the furniture.

Question 6

(a) Analyse **two** benefits to a business of low labour turnover. [8]

(b) ‘Work-life balance is the most important human resource management (HRM) factor for employee welfare in a local bus service.’

Evaluate this view. [12]

Suggested Answer

(a) Labour turnover is the measure of workers leaving a business in one year. Low labour turnover is a situation in which very few workers leave a business.

The first advantage of labour turnover being low for a business is that there would be no need of constantly training the workforce. As the majority of the workers do not leave the business it means there will be no need for a lot of training as the trained workers stay in the business and do not leave and this saves considerable cost for the business. This would help increase the profitability which could be used in other ways such as giving the investors better returns or using the higher profits to reinvest and expand the business.

The second advantage of low labour turnover is that the business will enjoy a very good employer branding as a business that provides job security. Thus workers will be motivated in working for such a business and would be willing to work on new ideas and innovations for the business which would mean the business developing new products and new unique selling points which would attract customers and this would help increase the sales and market share of the business.

(b) HRM is a business function with a strategic approach to help provide the right quantity and quality of workforce so that a business can effectively achieve its objectives. Work-life balance (WLB) is a HRM role that provides workers with a supportive environment so that workers can have enough time for personal life after the working hours.

WLB would be a very important role for a bus company as by providing bus drivers facilities such as proper lunch and adequate breaks between the shifts with good rest area facilities the drivers would feel energised and well rested and this would allow them to use the break times to chat with their families or read a book or any personal matter they want to look into. This would motivate the bus drivers and they wouldn't take leaves often which would reduce the absenteeism rate meaning the buses would always be running on time which would satisfy the customers and the bus company would have higher sales and market share. However motivation would not just depend on adequate breaks as the bus drivers would also want adequate salaries as well as good leadership such as democratic bosses in order to be motivated.

WLB provided by the bus company in the form of job sharing where bus drivers would cover the shift of anyone who has to attend to a personal event or matter would give the drivers a sense of security that the company cares about them and they can take days off for personal reasons and this would give the bus company a reputation as a very good place to work in. It would attract good bus drivers to apply for jobs in the company and the overall quality of services would improve and customers would be treated politely, which would enhance the brand image of the bus company increasing its revenues and profits which could be used for future expansion. However providing WLB such as job sharing would increase the administrative costs and managing it would require more HRM staff that would supervise the job sharing between the drivers.

Other HRM roles of training and recruitment will also be equally important. The bus drivers will have to be trained properly before they can be given the buses to drive as properly trained bus drivers will keep the passengers safe and also minimise the chances of accidents which would give the bus company an image of safe and secure travel services that would greatly encourage customer loyalty and help increase the sales of the business increasing profitability. Further the training provided to the bus drivers would teach them new skills and they would feel motivated which would make them more efficient in driving the buses properly and it would reduce the maintenance costs of the buses overall increasing profits for the business. Good recruitment would be very important as well.

JUNE 2024 PAPER 2

Business Concepts 2

Question 1

Post Scent (PS)

PS is a private limited company operating in country H. It sells perfume for men and women using its own website. PS purchases the perfume in large quantities from various manufacturers and then sells it in smaller quantities to its customers. Most of the perfumes are sold in glass bottles.

PS has two main ways in which it sells perfume:

- A website where customers can purchase a range of perfumes. The perfumes are priced to be lower than high street competitors.
- A subscription service where customers pay a monthly fee for a mystery perfume to be delivered each month.

All of PS’s products are delivered to customers’ homes using the postal service. The packages can be left in a mailbox or in a safe place outside of the home. PS has an aim to improve the sustainability of its operations.

PS uses incremental budgeting. Table 1.1 shows the budgeted and actual cost and revenue data for 2023.

Table 1.1 Budgeted and actual cost and revenue data for 2023 ($000)

	Budgeted	**Actual**	**Variance**
Revenue	500	600	**x**
Direct costs	300	350	**y**
Indirect costs	150	125	**z**

The directors of PS have decided that the business needs a Marketing Manager. The role of the Marketing Manager will be:

- to plan the recruitment and training of a new sales team
- to organise the production of digital promotions
- to advise the Board of Directors on changes to the PS product portfolio.

The directors have shortlisted five suitable applicants and plan to invite them all to an assessment centre as part of the recruitment process.

(a) **(i)** Identify **one** feature of a private limited company. [1]

(ii) Explain the term *sustainability*. [3]

(b) **(i)** Refer to Table 1.1. Calculate the variances in 2023 (**x**, **y** and **z**) and state whether each variance is favourable or adverse. [3]

(ii) Explain **one** benefit to PS of using incremental budgeting. [3]

(c) Analyse **one** advantage and **one** disadvantage to PS of using an assessment centre when selecting a Marketing Manager. [8]

(d) Evaluate the role of effective packaging for PS. [12]

Suggested Answer

(a) **(i)** Limited liability.

(ii) Sustainability is using the resources in such a way so that they are available for the future generations. Using solar power rather than using fossil fuels is an example of sustainability.

(b) **(i)** **Revenue x**: 100, Favourable
Direct costs y: 50, Adverse
Indirect costs z: 25, Favourable

(ii) Incremental budgeting is a quick may of making budgets as the managers use the previous years budgets and add an amount to get the new budget. The time saved in making the budget will allow PS managers to work on their website.

(c) Assessment centres will have a very specialised approach and will have a variety of selection tests and aptitude tests so this will test the applicants marketing skills properly and will help select the best possible marketing manager who will help organise the digital promotions which would increase sales to earn more profits.

The assessment centre will charge a considerable amount for testing and selection procedures for the 5 managers, as the assessment centre will test all of them. The higher costs will lower the profitability levels and can lead to lesser dividends for the shareholders.

(d) Packaging is an element of the marketing mix which also includes product, price, promotion and place. The marketing mix helps persuade consumers to buy a certain product. The packaging is very important for PS as they sell online through postal services so the packaging has to keep the glass bottles safe as the perfumes are left in the mailboxes. Without a strong safe packaging the perfumes would get damaged and wouldn't be bought online and this would reduce sales of PS. However the packaging to keep the perfume safe would increase the costs of PS and lower their profits as already PS is having an unfavourable variance in their direct costs and costly packaging may discourage shareholders from investing due to lower profits and dividends.

Secondly as the perfume is sold online a good packaging would attract customers towards the perfume and would add value to the PS brand image which would help PS charge higher prices leading to more profit margins as well as higher revenues to help pay the cost of hiring the assessment centre to select the five managers which would lead to better and more efficient marketing in the future for PS. However extra packaging would involve use of more material and this would come in conflict with the aim of PS to become more sustainable in the future.

Packaging would also provide the important role of giving information about the perfume and its composition as well as the type of scent it has which would inform customers about the nature of the perfume resulting in higher sales and possible market share. However for many consumers the quality of the scent and its smell would be more important and if it is not to their liking then good packaging would not lead to repeat sales. It can be concluded that packaging is a very important part of the marketing mix but it alone would not be enough as it is part of the marketing mix. The other elements such as the pricing which people can afford as well as the promotion that helps create a good brand image are equally important for the success of PS.

Question 2

Cobblestone Shoes (CS)

Yazeem is a highly skilled shoemaker. He opened CS in 1975, as a sole trader, to design and repair shoes. When Yazeem set up CS the main target market was professional people who wanted shoes to wear to work or to dress smartly. He produced the shoes using batch production and sold them in his own shop. Each design of shoe was made in a range of sizes and colours.

Recently there has a been an increase in low-priced shoes produced for the mass market, which has reduced Yazeem's sales of new shoes. It has also reduced the demand for shoe repairs.

Yazeem's daughter, Abir, is keen to take over the running of CS. She has been fully trained in making shoes and feels that it is time for Yazeem to retire.

Abir thinks that the business should be targeting niche markets. She would like to design and produce unique shoes and use price skimming to increase the profitability of the business.

Abir is also concerned about the contribution made on each batch of shoes. Table 2.1 shows some break-even data for a recent batch of shoes.

Table 2.1 Break-even data about a recent batch of shoes

Break-even level of output	400 units
Margin of safety	100 units
Total variable costs	$18 750
Total costs	$23 750
Total revenue	$25 000

Abir has suggested that CS should adopt a just in time (JIT) approach to inventory management. By using JIT, she argues, CS would be able to increase its working capital and avoid having money tied up in inventory that might not be used or sold. CS currently has a large number of shoes on display in the shop. There is also a large amount of their main raw material, which is leather and must be kept in a climate-controlled storage area.

Abir has already found a new local supplier which is happy to deliver inventory as required.

(a) **(i)** Identify **one** type of training. [1]

(ii) Explain the term *mass market*. [3]

(b) **(i)** Refer to Table 2.1. Calculate the contribution per unit for the recent batch of shoes. [3]

(ii) Explain **one** limitation for CS of using break-even analysis. [3]

(c) Analyse **two** disadvantages to CS of adopting a JIT approach to inventory management. [8]

(d) Evaluate the importance to CS of being a small business. [12]

Suggested Answer

(a) **(i)** On the job training.

(ii) The term mass market refers to selling undifferentiated products that are bought by a very large segment or the entire market. An example can be sandals that are bought by everyone. In mass markets businesses have high volume of sales and less risk of failure.

(b) **(i)** Contribution per unit

= selling price per unit – variable cost per unit

$$\text{Total units sold} = \text{break-even level} + \text{margin of safety} = 400 + 100 = 500 \text{ units}$$

$$\text{Contribution per unit} = \left(\frac{\$25000}{500 \text{ units}}\right) - \left(\frac{\$18750}{500 \text{ units}}\right) = \$50 - \$37.50 = \$12.50$$

Or,

$$\text{Total contribution} = \$25000 - \$18750 = \$6250$$

$$\text{Contribution per unit}: \frac{\$6250}{500 \text{ units}} = \$12.50$$

(ii) Break-even analysis assumes that the variable cost of making the shoes does not change over time. This is a limitation as the cost of leather to make shoes would rise over time making the break-even analysis inaccurate for CS.

(c) Using JIT inventory management would make CS order small quantities of raw material frequently from the supplier. Due to frequent smaller deliveries the supplier would charge higher due to transport costs and this would reduce the profitability of the shoes and lesser profits would mean break-even output would go higher than 400 units which would make it difficult for CS to survive in the market as the demand is already falling for shoe repairs.

Using JIT inventory management would have the risk of running out of stock of inventory due to a sudden rise in demand for the shoes. And since CS is currently in the mass market it would need to have an inventory of shoes in case of rise in demand otherwise the customers would go to the competitors and this would result in the fall of sales of CS and it would lose considerable market share.

(d) A small business is one which has very few or no employees and a relatively low level of capital investment.

One importance and benefit to CS of being a small business is that CS can provide personalised service to its customers which would help CS get a lot of customer loyalty especially beneficial as Abir wants to shift to the niche market. When dealing with a small business customer will know they are getting more attention and the shoes are customised for them which will lead to higher sales for CS. However, as CS is a small business they would not be able to buy leather and other raw materials in bulk which would mean CS would not get discounts from suppliers lowering their profit margins.

Secondly by being a small business Yazeem and Abir would have complete control over the decision making and lot of freedom to make their own shoe designs and also the trade secrets of CS will not be leaked. By having complete control over CS both Abir and Yazeem will have a sense of self-fulfilment leading to high levels of motivation which will make them willing to work hard and this will reduce wastage so CS will benefit from the motivation of Yazeem and Abir as there will be lower costs and greater efficiency in the making of the shoes which will help earn much higher profits for CS. However as only Abir and Yazeem will be making all the decisions there would not be any new ideas in CS and it could lead to CS shoes being old style and not up to the satisfaction of consumers who may want the shoes according to the latest trends.

Thirdly being a small business CS will not need to hire labour and this means that CS will not have to deal with labour and its training and will save all this cost which can be used to lower the prices and compete against low-priced shoe competitors that are recently entering the market. Thus CS will be able to get its market share back and increase its sales. However as only Yazeem and Abir will make the shoes without any workers it would mean slow production of shoes and this could delay the customer orders causing a poor reputation of CS.

To conclude being a small business is very important for CS if Abir aims to enter the niche market and sell high priced shoes as in a niche market there would be few customers that would want customised shoes so would prefer buying from a small business. However if CS continuous to stay in the mass market then it would be better to expand into a large business to avail the benefits of economies of scale and have lower costs to sell low priced shoes.

JUNE 2024 PAPER 3

Business Decision-Making

Soymai Farms (SF)

SF is a private limited company. SF owns three farms in country B. SF's core activity is growing a range of agricultural crops. Soya and maize account for 90% of output. Most of SF's output is sold to manufacturers of products such as soymeal and soya oil.

To increase value added, SF has diversified into manufacturing soya-based products including tofu and soya ice cream. SF owns a factory close to its farms. SF's sales of tofu have been successful since it was launched in 2010. SF has developed its branding and sells tofu to independent retailers and a national supermarket in country B.

Flexible employment contracts

Core workers, who are employed on full-time permanent contracts, include mechanics, farm labourers and machine operatives. Labour turnover is low.

Most employees, however, have flexible employment contracts which include temporary or zero-hour contracts. These employees are unskilled and receive limited training. All employees on flexible contracts are paid the same hourly wage.

Market conditions and sales forecasting

The market for soya and maize is competitive and SF has to accept the price set in the market in country B. Output can vary significantly each year because of the weather and this affects the market price. Country B currently imposes tariffs on all imported agricultural commodities, including soya and maize. Processed food imports also have a tariff of 10%.

There is a growing market for non-dairy products in country B. In 2015, SF launched Sosoy Ice Cream as a premium non-dairy ice cream. SF's marketing department is responsible for forecasting sales and makes use of industry market reports, its own market research and quantitative techniques such as time series analysis. Table 1.1 is an extract of sales data for Sosoy Ice Cream. The marketing department is using it to forecast sales for 2024 and 2025.

Table 1.1 Sosoy Ice Cream selected sales data by volume (000 litres)

Year	Quarter	Sales volume	Centred quarterly moving average
2022	3	29	22.75
	4	20	23.00
2023	1	16	23.75
	2	27	**See Q3(b)**
	3	35	26.00
	4	24	
2024	1	20	

SF does not yet export any manufactured products. However, SF's latest SWOT analysis highlights opportunities to sell its food products in neighbouring countries. The Marketing Director has recommended that SF export Sosoy Ice Cream to country D.

Factory operations nearing capacity

With the increasing sales of Sosoy Ice Cream, tofu and other soya products, capacity utilisation is a problem as it is above 90%. The factory already operates three shifts a day to fulfil demand. SF’s Managing Director is considering whether to expand capacity to meet forecast demand. He believes there are two viable options:

- invest in the latest technology to automate production in the existing factory
- outsource production of Sosoy Ice Cream.

Table 1.2 provides details of the investment appraisal for automating production. SF sets a minimum ARR for investments of 20%.

Table 1.2 Investment appraisal data

	Net cash flow ($m)
Year 0 (capital cost)	(3.0)
Year 1	0.3
Year 2	0.5
Year 3	0.8
Year 4	1.0
Year 5	1.1
Year 6 (Including residual capital value of $0.5m)	1.7

Quality problems

SF uses quality control inspectors to check final products meet quality standards. The factory manager is concerned about a rise in the proportion of soya ice cream and tofu rejected by inspectors in the last year. She has discussed this with directors, who have decided to implement total quality management (TQM) at SF.

International trade

The cost of key inputs such as fertiliser and energy has risen recently, increasing pressure on SF to raise prices to customers. SF imports fertiliser into country B from country D.

The government of country B has negotiated to join a zero-tariff international trading agreement, the NFTA. The NFTA is a trading bloc of seven countries including country D and other neighbours of country B. The members are high-income countries and include one of the largest producers of soya in the world. The government argues that joining the NFTA will raise living standards and agricultural efficiency. Country B will join the NFTA in January 2025.

Answer **all** questions.

Question 1

Analyse **two** advantages to SF of using flexible employment contracts. [8]

Suggested Answer

Temporary, part-time and zero-hour contracts are following the hard approach to HRM in which workers are not given full-time contracts. The first advantage to SF of using flexible employment contracts is that zero-hour contracts means that SF is not responsible for paying a fixed wage to employees and there are no minimum number of hours that the workers will be paid for. As farming is a very seasonal business and there can be seasons in which no workers are required so SF will not have to pay any wages to the workers on zero-hour contracts during the off-seasons which will greatly reduce SF's costs and these savings can help increase profitability which could be used as internal source of finance to invest in the latest technology to automate production allowing SF to become more efficient and productive.

Secondly using part-time contracts will give the benefit to SF to hire more workers when the harvest season is near and can help improve the output of crops. This will mean SF will be able to supply a large amount of their products to the market which would help meet consumer demand more effectively resulting in benefits of higher sales for SF. This would increase SF's market share resulting in better brand image as a big business which would help boost SF's chances of entering international markets such as exporting Sosoy Ice Cream to country D which would spread the risks for SF as well as give them the opportunity to avail the benefits of economies of scale.

Question 2

Analyse **two** problems SF may experience when implementing total quality management (TQM). [8]

Suggested Answer

TQM is a quality management system that aims to involve workers in quality management and aims to achieve zero defects as workers are responsible for quality checks during production. The first problem SF may experience due to TQM is that checking at each stage of production may slow down the entire production process for the different brands of SF. Moreover as the workers will now be involved in the checking of quality it would further slow down production. Due to the slow production pace SF's products such as Sosoy Ice Cream may not be produced in enough quantity on time and it will result in lower sales and SF's market share could be lowered reducing it's profitability which would mean lower dividends for the shareholders who would be displeased. The second problem for SF would be that TQM would require the workers to be trained. SF gives a lot of its workers temporary contracts which means that these are short-term contracts of 3 months usually so SF does not have a loyal long-term workforce and SF would have to constantly retrain the new workers about the TQM procedures and this would increase the cost of training for SF which would mean it would have less money to invest in the automation of the factory which would negatively affect the quality of the products.

Question 3

(a) Refer to Table 1.1. Calculate for quarter 1, 2023, the seasonal variation. [1]

(b) Refer to Table 1.1. Calculate for quarter 2, 2023, the centred quarterly moving average. [3]

(c) Evaluate the usefulness to SF of sales forecasting. [12]

Suggested Answer

(a) Seasonal variation = sales − trend

$$= 16 - 23.75 = 7.75$$

(b) Sum of 1st 4 moving period $= 20 + 16 + 27 + 35$
$= 98$

Sum of 2nd 4 moving period $= 16 + 27 + 35 + 24$
$= 102$

Total $= 98 + 102 = 200$

Centred quarterly moving average $= \dfrac{200}{8} = 25$

(c) Sales forecasting comprises of quantitative and qualitative techniques that help predict the future sales of a business. Time series analysis is a quantitative sales forecasting method that use past sales records to extrapolate. Sales forecast carried out will help SF identify that in quarter 1 in 2023 the seasonal variation was 7.75 that means SF did not achieve their target so SF managers can carry out a thorough market research about quarter 1 to find out why this happened and make marketing strategies so that it doesn't happen again. This will help ensure SF always meets their targets. However sales forecasting using time series analysis only gives quantitative information and the technique would not be able to give any reasons why the sales target of quarter 1 2023 was not achieved. Sales forecasting would enable SF to make predications of future sales and it would help SF to make a proper workforce plan and have the right number of workers which would avoid over staffing helping reduce costs. SF would also be able to purchase the right amount of fertilisers and farming input materials which would ensure that the right amount of tofu and soya ice creams are produced helping SF meet their consumer demands gaining more market share. However as SF operate in a very dynamic market that is affected by numerous external factors so depending on the sales forecasts would be risky and due to an inaccurate sales forecast SF might hire too many workers and would have to pay high wage costs. Sales forecast will be overall very useful and has to be made as the sales forecast will play a very vital role in the financial planning for SF, it will help make the cash flow forecast as well as the budgets which are extremely important for the efficient allocation of resources. However SF should not just rely on the quantitative forecasting method of time series analysis but should also use qualitative forecasting such as brainstorming in order to get a better judgment of the future sales.

Question 4

(a) Refer to Table 1.2. Calculate the accounting rate of return (ARR) of automating production. [4]

(b) Evaluate whether SF should invest in automating production. [12]

Suggested Answer

(a) Total profit

$= \text{sum of net cashflow} - \text{initial investment}$

$= (0.3+0.5+0.8+1.0+1.1+1.7)-3.0$

$= \$2.4\text{ M}$

$$\text{Average profit} = \frac{\$2.4\text{ M}}{6\text{ years}} = \$0.4\text{ M}$$

$$\text{Average investment} = \frac{\$3\text{ M}+\$0.5\text{ M}}{2} = \$1.75\text{ M}$$

$$\text{ARR} = \frac{\text{Average profit}}{\text{Average investment}}\times 100$$

$$= \frac{\$0.4\text{ M}}{\$1.75\text{ M}}\times 100 = 22.86\%$$

(b) Investment appraisal techniques include quantitative methods such as payback period and ARR as well as qualitative factors.

The ARR of the automation is relatively high at 22.86%, which shows a good return on investment which is higher than the criterion rate of 20% and will give very good profitability to SF which will allow them to give dividends as well as expand in the future. However relying only on ARR will not be enough as it does not consider the time value of money. The payback period of the automation is 4 years 4 months, which means it would take considerable duration for S.F to recover its initial cost of $3M which would exert pressure on the liquidity of S.F and could create cash flow problems for them. However payback period technique does not consider the cash inflows after the payback period and could not be relied upon completely. Automating production would mean that SF would be able to make workers redundant and this would lower the labour cost allowing SF to lower the prices of their ice cream leading to higher sales and greater market share. However, making workers redundant would tarnish the brand image of SF and would make the remaining workforce highly demotivated. Automation would also increase the output and already SF is producing at 90% capacity so the increase output would help SF enter into international markets as well as meet the demand for ice creams. Thus by producing in larger quantities SF would avail economies of scale and get a higher profit margin increasing profits. However automation would require an initial cost of $3M which would put financial burden on SF as it could have used these $3M for other opportunities. As the demand for SF products is on the rise it would be advisable for

SF to automate its production as outsourcing the production of Sosoy Ice Cream would not be advisable as the outsourcer could create quality issues as well as delays that would ruin the brand image of SF. However SF before taking this decision would also have to consider how it can raise the $3M finance required and whether the rising demand for Sosoy Ice Cream is going to last in the long-term or it is only a short-term trend. Also SF must be very sure about the accuracy of the forecasted net cash flows and make sure they are not wrong before it can take such a big decision about the automation of the production process.

Question 5

Evaluate the impact on SF of country B becoming a member of the NFTA international trading agreement. [12]

Suggested Answer

International trading agreements are those in which countries agree to carry out free trade in which there are no tariffs and duties on the goods being imported and exported.

AS SF imports fertilisers from country D so without tariffs SF will have cheaper imported fertilisers reducing costs of production that will allow SF to lower their prices and boost its sales. Increased profit margins would also lead to greater expansion opportunities as well as ability and funds to finance the automation of their production process. However due to the free trade agreements a lot of imported brands of ice cream and tofu would also enter country B's market and as people tend to demand imported brands over local ones, the sales of SF in country B may drop as consumers would prefer imported brands over SF's Sosoy Ice Cream and as one of the members of the trading bloc and a very large producer of Soya it will be able to sell its Soya at relatively lower prices than SF and this could take a huge market share away from SF. The member states of the trading bloc that SF will join are high income countries and SF's products such as tofu and ice cream are income elastic products so SF will be able to export its products into these countries without any tariff payment which will help SF find new markets and consumers and this will help SF diversify into new markets increasing the economies of scale that will help SF gain higher profits and revenues giving more dividends to the shareholders and attracting more investors in the future. However only free trade will not guarantee the sales of SF products in other countries as SF products would need to be of superior quality and have an effective promotion that would appeal to consumers.

To conclude country B becoming member of the NFTA agreement would have a positive impact as it would allow SF to become an international brand and not just rely on selling in country B. SF would be forced to compete with the foreign brands that would help SF to make strategies to become more competitive and improve its quality. However a lot will depend on the ability of SF. If SF can continuously improve its product's quality and also come up with unique selling points in its ice creams and tofu then it would have a very high sales in the NFTA agreement.

JUNE 2024 PAPER 4

Business Strategy

Clean Arena (CA)

Nala lives in country P. She left school in 2014 and started university in city A to study Business. In her first year she joined CA as a part-time cleaner. CA is a large business that cleans offices. When Nala graduated in 2018, she tried to find a management job while still working as a cleaner. As country P’s economy was in recession, there were no suitable vacancies available. Fortunately, the owners of CA offered Nala the post of Operations Manager. She accepted and became a full-time employee.

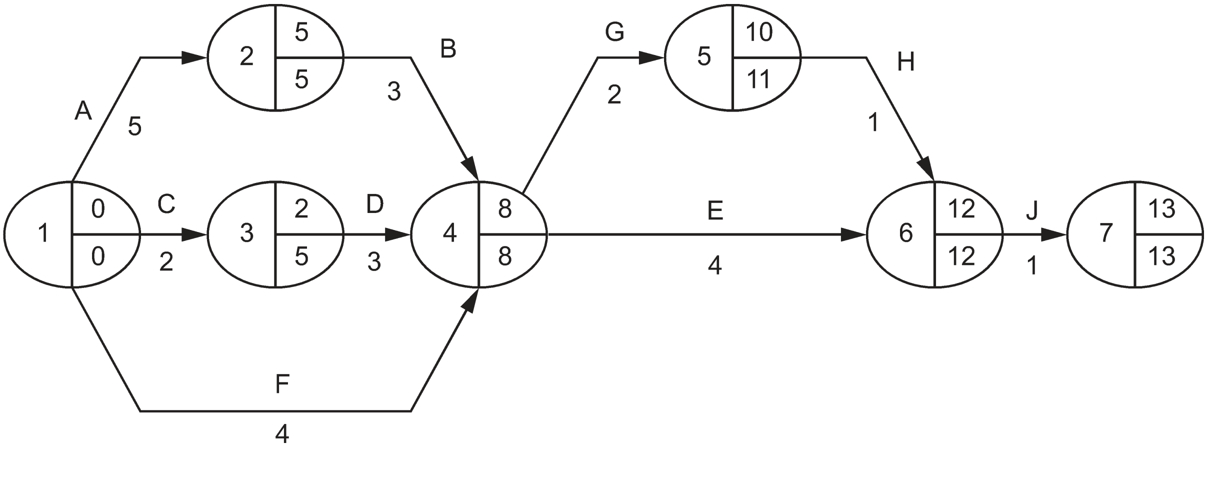
Timeline of CA

2019	Nala is employed as Operations Manager.
2020	Nala recommends that CA should open a new branch in city Z. She believes the new branch could open in 10 weeks. Nala uses a network diagram to plan the opening (see **Appendix 1**). Nala is given responsibility for the management of the city Z branch.
2021	Nala implements lean production in the city Z branch (see **Appendix 2**).
2022	Nala introduces a new customer services artificial intelligence (AI) system (see **Appendix 3**).
2023	The owners of CA are concerned about the performance of the city Z branch. They ask Nala to produce a comparison between the operations of the city Z branch and the city A branch (see **Appendix 4**).
2024	The owners of CA close the city Z branch and make Nala redundant.

Developing a corporate plan

CA offer Nala the opportunity to buy the city Z branch at a very low price. However, to gain finance from a bank, she has been asked to create a corporate plan for the future of the city Z branch.

Appendix 1: Network diagram used by Nala for city Z branch in 2020



Activity	Task	Duration (weeks)
A	Secondary market research of cleaning market in city Z	5
B	Primary market research of city Z target customers	3
C	Advertise for employees in city Z	2
D	Recruit and select employees in city Z	3
E	Advertising of CA in city Z	4
F	Find a suitable location in city Z	4
G	Setup office in city Z location	2
H	Open office in city Z	1
J	Bookings taken for cleaning jobs in city Z	1

Appendix 2: Lean production methods implemented by Nala at city Z branch in 2021

- Kaizen is introduced throughout the city Z branch.
- All cleaners are assigned to a quality circle, with each quality circle to include eight cleaners and one manager.
- A target to ethically recycle 90% of customers' waste.
- Inventory of cleaning materials ordered on a just in time (JIT) basis.

Appendix 3: Local news article in city Z about CA's AI system in 2022

Cleaning firm CA has made the majority of its customer service operatives redundant. The company has replaced these workers with a new 'chatbot' system that uses an online database to respond to customer needs. The system can book appointments, answer customer queries and even take complaints, most of which have been about the chatbot itself. A spokesperson from a local business which is a customer of CA is quoted as saying 'when you replace people with computers you might save money, but it's the customers who suffer.'

Appendix 4: Comparison between the operations of the city Z branch and the city A branch of CA

	City Z branch		City A branch	
	2021	2023	2021	2023
Annual revenue ($m)	0.45	0.46	1.0	1.1
Profit for the year ($m)	0.05	(0.1)	0.2	0.5
Number of cleaners employed	18	18	24	26
Direct costs ($m)	0.3	0.32	0.5	0.5
Rate of inventory turnover	6	12	6	6

Answer **Both** questions.

Question 1

Evaluate the extent to which CA's operations strategy between 2019 and 2024 led to the failure of the city Z branch. [20]

Suggested Answer

Operations strategy involves all the activities carried out to ensure the production of goods and services is done with the least wastage of resources and with maintaining quality that meets consumer demand. It includes lean production which use techniques like Kaizen that involve worker's opinions in reducing wastages and time. Nala used the network diagram to help her plan the launch of the new branch Z. It forecasted 13 weeks which was 3 weeks longer than what Nala had planned so this wasted precious time. Further it gave a lot of float time to important activity such as recruiting and setting up office which would have added to the costs a lot which led to low profitability. Further the forecasting of weeks for each activity could have been inaccurate leading to unnecessary delay in opening the branch which added to costs making branch Z less profitable. However, the critical path analysis is a good technique and it would have helped Nala plan the resources for each task making the setting up of the branch Z more efficient. The critical path analysis also helped Nala to know the activities which could not be delayed such as market research which also made opening the new branch easier.

Nala used the operations strategy of lean production and introduced Kaizen and quality circle in which the cleaners were given empowerment to be responsible for reducing wastages and all the cleaner's opinions and suggestions were heard. A disadvantage would have been that the cleaners are unskilled and would not have given valuable suggestions. Both Kaizen and quality circles would have distracted the cleaners from their real job of cleaning and it caused poor customer service as can be seen that the sales rose only $0.01M in 2 years and the direct costs rose by $0.02M resulting in loss. However, lean production techniques would have also played a positive role such as motivating the cleaners and the just in time ordering of the cleaning materials would have helped improve the cash flow as well as reduced the storage costs of the cleaning materials.

The introduction of Artificial intelligence customer services did not help the image of branch Z as the customers complained about not getting good customer service from the Chabot which would have caused branch Z to have a poor reputation due to which sales did not rise much in 2 years from 2021 to 2023. However, Chabot system would have lowered the cost of hiring telephone sales staff for branch Z.

It can be concluded that to a great extent the operations strategy played a big part in the failure of branch Z as it can be seen that although the sales rose but the costs rose much higher causing branch Z to go into a loss. The control of the costs is part of the operational strategy and it could not control the costs properly. However, it should be seen that the operational strategy techniques were well selected but were not carried out properly due to Nala's inexperience and also there could have been other factors like the state of the economy and possibly poor market research about the demand for cleaning services cannot be ruled out. Thus branch Z failed due to the combination of many internal and external factors of which the poor execution of the operations strategy was one part.

Question 2

Advise Nala on the most important elements to be included in a corporate plan for the future of the city Z branch. [20]

Suggested Answer

Corporate planning is a document describing the strategies and tactics that will be needed to achieve the corporate objectives both in the short and long run. It is a plan for the entire business and not just for any one function or department. Corporate plans include marketing plans and workforce plans. Nala should include a marketing analysis in her corporate plan for the branch Z. The marketing analysis must clearly state the type of customers and market segment she aims to target as well as the pricing strategy that she plans to use. Nala must have an effective marketing mix which can help her to reach the required sales target. This element in the corporate plan will show the bank if she would be able to achieve a certain level of sales. However, Nala will need to carry out a detailed market research for this and in the short run it would be costly for her and also market research may quickly become outdated and inaccurate as well.

Another very important element of the corporate plan will be the financial planning. Nala must have a well prepared cash flow forecast and a well researched budget that would show her estimated Revenues and expenditures. The cash flow forecast would also show the predicted cash balances. This will help Nala have better liquidity and working capital to meet her day-to-day expenses. The forecasted budget will help Nala keep a check on the expenses and she would be able to carry out variance analysis to see if she is meeting the revenue and cost targets enabling branch Z to make a profit. However, Nala would require a financial adviser and would have to pay his cost as Nala herself was the operations manager and does not have much experience in financial matters.

Operations plan will also be important as in the last four years branch Z went into a loss so a new operations plan showing how Nala aims to differentiate her cleaning services from the competitors and the techniques she wants to implement to help improve the cleaning services will be important as the bank would like to see how she plans to provide the cleaning services and then decide whether to give her a loan or not.

The mission statement and objectives will also be an important part of the corporate plan as the banks only give loans to businesses that have fair and ethical mission statements. The objective Nala has will also be important as bank will be keen to see whether Nala has a strong objective of survival within the first six months or year. However, as Nala is just starting out and previously the branch Z was owned by CA, changing the mission statement and objective would not be easy as the staff would be used to CA's mission statements and may not adopt a new one at once.

As Nala is making the corporate plan to primarily get a bank loan so the most important elements of the corporate plan would be the financial plan as it would show how much sales, profits and cash flow Nala predicts branch Z will have and it is on these basis that banks decide whether to give loans or not. The financial plan if positive and favourable would convince the bank that the marketing, operations, HRM would be successful as well.

NOVEMBER 2024 PAPER 1

Business Concepts 1

Section A

Answer **all** questions.

Question 1

(a) Define the term *external stakeholders*. [2]

(b) Explain **one** way the aims of employees may impact on the decisions of a business. [3]

Suggested Answer

(a) Individuals or groups that are outside the business but have an interest and are affected by that business activities. An example is the supplier.

(b) One aim of employees is to claim and earn higher wages and salaries as well as push for profit sharing. This aim will have an impact on the business decision of giving high dividends to its shareholders as paying higher salaries will reduce the profits and the business will have to reverse its decision on paying high dividends.

Question 2

(a) Define the term *full costing*. [2]

(b) Explain **one** limitation of contribution costing. [3]

Suggested Answer

(a) Full costing is a method of costing in which fixed costs are allocated to products, branches and cost centres along with the variable costs.

(b) Contribution costing only deducts variable / direct costs from the cost / profit centres and does not allocate fixed / indirect costs so a business cannot use contribution costing in decisions of the long-run such as opening a new branch or business expansion as in such decisions the total cost both fixed and variable have to be considered. Thus using contribution costing would lead to wrong budgets being made as only the variable costs would be considered.

Question 3

(a) Define the term *dynamic pricing*. [2]

(b) Explain **one** reason why a business might use price discrimination. [3]

Suggested Answer

(a) Dynamic pricing is a pricing strategy that sets the price of a product based on the consumers demand and ability to pay.

(b) Price discrimination gives incentives to certain customers to buy a product whom would otherwise have not bought the product. A business would give price discrimination by giving lower prices for children below 12 years for entry into a park or stadium and this would motivate and encourage families to buy tickets as now they are getting lower prices for the children and in this way by targeting family market segment the businesses would earn higher sales and profits.

Question 4

Analyse **one** way employee development could be used by a business to encourage intrapreneurship. [5]

Suggested Answer

Employee development is a Human Resource role that aims to enhance the careers of the workforce and make them more productive. One way employee development could be used to encourage intrapreneurship is by training the workforce. By investing in training, the employees will learn new skills and enhance their ability to become problem solvers and analyse new methods and come up with new ideas and new business solutions that would create new products and services for the business helping it earn more sales and profits in the future by differentiating their products and services from the competitors.

Section B

Answer **one** question only.

Question 5

(a) Analyse **two** reasons why a business should measure labour productivity. [8]

(b) Evaluate whether the sustainability of operations is the most important operational factor in a large retail distribution business. [12]

Suggested Answer

(a) Labour productivity is a measure of how efficiently the labour is working and is measured by the formula:

$$\text{Labour productivity} = \frac{\text{Units produced}}{\text{No. of workers}}$$

One reason why a business should measure labour productivity is to see the effects of training and its impact on the labour. A business can measure the labour productivity of the labour before the training and then train the workers. The business would then measure the labour productivity after the training has been done and if there is an increase in labour productivity and the output per worker has gone up then the business will know that the investment in training was successful and that the workers have benefitted from being trained and due to higher labour productivity of the trained workers the business will earn higher profits.

Second reason why a business should measure labour productivity is when making a decision whether to invest in more technology and make the business capital intensive or to continue using labour intensive methods. If the labour productivity being measured over a period of time is continuously falling and the business is facing rising costs then this will indicate that the labour is not working efficiently and the business would have to make the decision to invest in technology and become capital intensive in order to become more efficient and raise the profitability of the business.

(b) Sustainability of operations means the continuation of operations in an environmentally safe manner which ensures that resources are available for the future generations.

Large retail distribution businesses are those that have goods in bulk in warehouses and are delivered on order to customer's homes. Sustainability is a very important factor in large retail distribution business because if the retail business would use eco-friendly and recyclable packaging with less plastic then a large number of customers would appreciate this and buy their goods from such a business which would increase the sales considerably resulting in higher market share as well. However the use of recyclable material would increase the short-run costs of the business decreasing profits. Moreover there would be many customers that would be unaware of sustainability concept and would only look for businesses that offer them lower prices.

Sustainability would be important as the business could be given incentives for being sustainable by the government. The large retail distribution business could install solar power to power their warehouse and this renewable source of energy would not put any strain on the resources of the country thus the government would provide the business with subsidies that would lower the costs. Also using sustainable source of energy would lower the electricity bills of the business and the reduced costs could allow the business to lower their prices and gain higher sales revenue. The higher profits could be used for expansion of the business to gain economies of scale. However government subsidies are not reliable as the government may abruptly stop them to achieve other government aims. Sustainability in operations could also be achieved using electric vehicles in the distribution of the goods and this would reduce the cost of fuel for the business to a great extent helping them save costs and use the funds for other purposes such as marketing and advertising the business improving their brand image. However the initial cost of investing into electric trucks would be tremendously high and would cause a huge cash outflow for the business which would force it to take loans and increase its liabilities and interest expenses in the long-run.

Thus it can be concluded that for a large retail distribution business sustainability is an important operational factor as all the stakeholders are now particularly concerned about the impact of businesses on the environment and resources and generally boycott businesses that do not have sustainability in their operations. However we cannot say that sustainability is the most important factor as other operational factors are equally important such as inventory management which is extremely important for the large retail distribution business as it would not want its inventory to become obsolete or damaged that would cause it very high losses. Further the main aim of business in operations is the reduction of costs so the operational factor of increasing efficiency is also very important in making sure there is high labour productivity and that there is minimum wastages in the entire supply chain. Thus while sustainability is an important factor we cannot say it is the most important operational factor.

Question 6

(a) Analyse **two** benefits to a business of customer relationship marketing. [8]

(b) 'Market research is essential for effective product development in a hotel.'

Evaluate this view. [12]

Suggested Answer

(a) CRM (Customer Relationship Marketing) is a technique based on client relationships and aims to create customer loyalty by using customer data and feedback. Businesses create strategies to persuade existing customers to buy more of the products and also refer new customers to the business.

CRM allows a business to stay connected to their customers through techniques such as 24 hours helpline and this connectivity with customers solves customer complaints and issues very quickly which leads to much greater customer satisfaction and thus customers give positive viral reviews about the business on social media and this would give the business a much stronger brand image as a reliable and trustworthy enterprise which would lead to higher sales and greater profits that could be used to reinvest for growth and expansion as well as launching of new goods and services.

Secondly CRM allows a business to analyse their customers purchasing of their products through online platforms like apps and customer numbers. These online technologies help the CRM as now business can see which of their product is more demanded and which is lesser. This helps the business make effective strategies about their products such as perhaps dropping products that are not selling well and launching newer versions in their place and increasing advertising so that the lesser selling products sales will rise. This knowledge of how to allocate the advertising budget will help save the business costs.

(b) Market research is the collection and collation of data either through primary research (information collected via direct contact with existing or potential customers) and through secondary research (information collected via sources that were collected by other people for other purposes).

Product development is creating new goods and services to meet changing consumer demand and to differentiate products from the competitors.

Market research will play a very important role in new product development for a hotel as through primary market research techniques like interviews and questionnaires the hotel management would get feedback about the level of consumer satisfaction and also about consumer dissatisfaction and what the consumer views are about their stay in the hotel. Therefore the hotel would know the new services they now have to offer such as free Wi-Fi or 24 hour online booking or a certain new type of cuisine. By offering these new services the hotel would offer more value added stay for the customers and the hotel could raise its prices allowing the hotel to increase its profit margins which would earn the hotel enough profits to expand as well as give financial rewards to its workers who would get motivated and offer much better services overall improving the brand image of the hotel which would attract more customers in the future increasing market share. However the information gathered from the market research could be inaccurate and the data could be easily outdated as the consumer demands change very rapidly and this could lead to wrong decisions about new products and services leading to high losses for the business. Market research carried out through secondary research such as viewing competitor hotels websites would help the hotel monitor the type of services being offered by competitor hotels and the hotel would be able to make sure that it also provides those services such as high quality room services, pick & drop facilities as well as new services like loyalty points so the hotel would be able to compete with the competitors and in this way would not lose their customers to other hotels. Thus maintaining customer loyalty would help the hotel have steady sales and good cash inflows and would be able to meet their day to day expenses on time allowing the hotel to have good relations with its suppliers. However, relying on secondary market research to develop new products would mean the hotel would not be having any original innovative new services as the hotel would be trying to match the services of its competitors and customers may not like the lack of originality in the hotel.

To conclude, a hotel is in a very competitive industry and needs to come up with new products and services to continue to meet consumer demand and market research is a very important tool that provides information to hotel managers about what consumers demand and market research definitely plays a major role in helping create new hotel services.

However hotel managers should not just rely solely on market research to come up with new products but should also at times be product-orientated and come up with original new services that do not exist in the market which would help the hotel have unique selling points. Thus both market research and research & development are equally important for a hotel to launch and create new products and services.

NOVEMBER 2024 PAPER 2

Business Concepts 2

Question 1

Pot Plants (PP)

PP is a private limited company that grows and sells plants in pots. PP has 12 large shops in country Q and uses a variety of promotion methods. The shops are located in the countryside and PP owns large fields near each shop where the plants are grown. The business is split into two divisions: growing and retail. Table 1.1 shows some human resource data about the divisions.

Table 1.1: Human resource data about PP's divisions

	Growing	Retail
Average workforce for the year	450	120
Number of employees who left in 2023	100	14
Trade union membership	100%	25%
Payment methods	Salary and piece rate	Salary and commission

PP's plants are all sold in plastic or clay pots. The manufacture of these pots is outsourced between two businesses.

- Clay Containers (CC) manufactures clay pots in one size and one colour using flow production. CC is based in country Q. PP would like a larger variety of pots, but CC does not want to pay the capital expenditure that this would require. CC has a lead time of three days for PP's pots.
- Fantastic Flexible (FF) manufactures plastic pots in a large factory in country S. The use of mass customisation means that it can produce any size and colour of pot. The lead time is one month for PP's pots.

(a) **(i)** Identify **one** promotion method. [1]

(ii) Explain the term *capital expenditure* (line 15). [3]

(b) **(i)** Refer to Table 1.1. Calculate the labour turnover rate for PP in 2023. [3]

(ii) Explain **one** possible impact on PP of its employees being trade union members. [3]

(c) Analyse **one** advantage and **one** disadvantage to PP of outsourcing the manufacture of pots. [8]

(d) Evaluate the importance to PP of workforce planning. [12]

Suggested Answer

(a) **(i)** Newspaper advertising.

(ii) Funds used to purchase non-current assets such as machinery. Capital expenditures are made using long-term sources of finance such as bank loans. Capital expenditures are recorded in the statement of financial position.

(b) **(i)** Labour turnover

$$= \frac{\text{number of employees left in 2023}}{\text{average workforce for the year}} \times 100$$

$$= \frac{114}{570} \times 100$$

$$= 20\%$$

(ii) As 100% of the growing employees are members of the trade union. The growing workers would have strength in numbers to carry out collective bargaining to push for higher wages and this would increase the total costs of PP reducing its profits, which would mean less funds which would slow down expansion for PP.

(c) Outsourcing the manufacturing of pots to CC and FF enables PP to only focus on their core business of growing plants. This allows PP to specialise in the growing of plants which leads to the plants being of high quality which can mean PP can charge higher prices and earn higher profit margins which can be used to give the shareholders higher dividends which can attract more investors to invest in PP.

The outsourcer FF is located in a different country and this means the plastic pots and clay pots have to be imported into country Q and this could mean delays. Already the lead time FF takes to bring the pots is 1 month which is very long. Due to international trade issues such as delays in transport and complex documents the pots could be further delayed which can lead to PP not delivering the plants on time to their customers tarnishing their brand image leading to loss of customer loyalty and fall in sales and market share.

(d) A workforce plan is a role of the Human Resource Management in which the quantity and quality of workers required to meet the business objectives are planned out. Workforce planning is the process of analysing and forecasting the number and type of workers that will be required by a business in the future.

Firstly PP will benefit from having a workforce plan as it will be able to have the right number of farmers and crop growers throughout the year which will ensure that the right quantity and output of plants are being grown and this will mean PP will be able to meet the demand of their customers properly and this will help PP maintain a high market share resulting in high sales and profitability. However workforce plans are forecasted and if there are very sudden changes in country Q's economy then the workforce plan could easily go outdated and would not be of much help to PP.

Secondly the workforce plan will help PP to identify the skills that their workers will need such as customer sales skills and skills of agriculture so PP will be able to plan and schedule training for their growing and retailing staff. This will improve the quality of the plants as well as the customer service will become excellent. Further the training would help the workers to come up with new ideas and this will enable PP to have unique selling points which will help differentiate PP from its competitors boosting the sales of PP. This would help them have better cash inflow and PP could provide better wages and working conditions to the workers in the growing department and would reduce the labour turnover which is very high at 20% so in the future PP would have less training and recruitment costs. However a workforce plan would be costly and time consuming to make and also if too much time is spent in making the workforce plan it could lead to unnecessary delays in the growing of plants reducing the output temporarily.

Thirdly the workforce plan would layout the budget that would be required for the labour over a period of time. This would help PP ensure that they do not overspend in the salaries of the workforce and it would help reduce the cost of farmers and customer staff salaries which would lead to higher profits that PP could use to research and develop new type of plants and could even make their own pots leading to much greater added value plants for customers who would be willing to pay premium prices leading to higher profits for PP. However workforce planning would not ensure success as generally the plant growing industry could have sudden changes in it that would make the plants obsolete.

Overall the workforce plan would be very useful as PP has a large workforce of 570 workers and in the growing section 100% are trade union members so it would be very essential to have a plan to inform the workers of their pays and contracts so there is no disruption as the workers are vital for the success of the business. The workforce plan will however be more useful if there is no sudden changes in the economy which will mean the plan will remain relevant and important. However if the unemployment in the economy rises a lot and it becomes easier to hire workers then planning will not be required that much.

Question 2

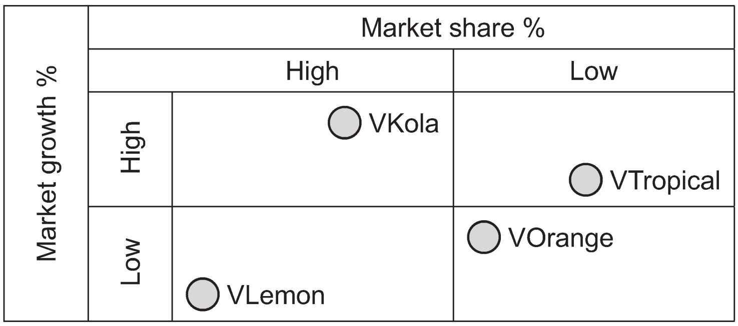
The Drink Company (TDC)

TDC is a multinational carbonated drinks manufacturer with limited liability.

TDC had budgeted that its annual revenue would be $400m for the year ended 2023.

In 2023, TDC commissioned some primary market research to analyse its product portfolio using the Boston Matrix (see Table 2.1).

Table 2.1: Boston Matrix analysis



The Board of Directors has set two objectives for TDC to achieve by the end of 2025:

- to increase TDC’s profit margin by reducing the cost of raw materials
- to increase TDC’s market share of the business to consumer (B2C) market for carbonated drinks.

As part of its business plan to achieve these objectives, TDC is now merging with one of its main competitors, Harvest Liquids (HL). Table 2.2 shows some data about TDC and HL.

Table 2.2: Data about TDC and HL in 2023

	TDC	HL
Revenue	$340m	$280m
Profit for the year	$23.8m	$14m
Targeted market segment	Teenagers and young adults	Restaurants, events and hotels
Type of market	Consumer market (B2C)	Industrial market (B2B)

(a) **(i)** Identify **one** stage of the product life cycle. [1]

(ii) Explain the term *limited liability* (line 1). [3]

(b) **(i)** Refer to Table 2.2 and other information. Calculate the variance between TDC’s budgeted revenue and actual revenue for 2023. State whether the variance is favourable or adverse. [3]

(ii) Explain **one** possible benefit to TDC of using budgets. [3]

(c) Analyse **two** ways in which TDC could use the Boston Matrix analysis in Table 2.1. [8]

(d) Evaluate whether the planned merger with HL will enable TDC to achieve its objectives. [12]

Suggested Answer

(a) **(i)** Maturity stage.

(ii) Limited liability means that legally the owner's personal belongings cannot be held responsible for the debts of the business if unpaid. Further the owner can only lose the investment made in the business if it goes bankrupt. Limited liability is offered by public and private limited companies and it helps them attract a large number of investors.

(b) **(i)** Variance = actual revenue – budgeted revenue

= \$400m – \$340m

= \$60m adverse

(ii) One benefit of setting budgets for TDC is that they have found out that they have not achieved the sales budget and have an adverse variance of \$60 m so TDC will now carry out market research and help spot the reason why the sales are below the budget and can then rectify the mistake they are making to ensure the sales budget is achieved in the future and in this way TDC can monitor its performance through budgeting.

(c) The Boston Matrix is a product portfolio analysis technique that helps measure the performance of products through analysing the market growth and their market share relative to each other.

First of all TDC will be able to spot that the VOrange is a dog which means it is a product that has very low market share in a market that has very low market growth (which means that the consumer trend towards the orange flavour beverages is falling rapidly). This means the VOrange is performing poorly both in terms of profits and sales and TDC should discontinue VOrange and free up its resources which TDC should use in either launching a new product or it should use the resources in maintaining VKola which is a star so it continues having high market share and sales.

Secondly the Boston Matrix will help TDC to spot that the VTropical is a question mark / problem child which means it is a product that has low market share in a market that has high market growth (which means that the consumer trend towards Tropical flavors is on the rise). This means that VTropical is not being able to compete against other brands although the number of consumers drinking Tropical flavors is increasing. Thus now TDC will know it has to carry out a detailed market research and focus on increasing VTropical's market research by modifying its marketing mix (Product / Price / Promotion / Place). This will help VTropical increase its sales and become profitable.

(d) A merger is a business integration in which two firms combine their capital and resources to create one business entity. Business objectives are short and long-term targets a business aims to achieve. Business objectives have the characteristics of being S.M.A.R.T (Specific, Measurable, Achievable, Realistic and Time bond).

Merging with HL will give TDC a greater revenue as the combined revenue of both businesses will become (\$340m + \$280m) \$620m so this will increase the overall market share of the merged business. This will help to achieve TDC's objective of getting higher market share in the consumer (B2C) markets. Further as TDC has failed to achieve its own sales revenue budget by \$60 m so merging will help achieve the objective of higher market share which TDC on its own would be unable to achieve. However HL is in the industrial (B2B) markets so it might be possible that repositioning their drinks to the consumer markets may be difficult and customers may not like HL's brand when sold in the consumer markets.

Merging with HL will enable the merged business to have greater economics of scale as now TDC will be able to buy the raw materials in bulk and get discounts from the suppliers which will lower the average costs of TDC and this would help them achieve the objective of increasing profit margins by reducing the cost of raw materials. This higher profit margin could be used to have better advertising and promotion for the brands of TDC especially VTropical which would increase market share and the higher profit margins could also help develop new product to replace VOrange maintaining the customer loyalty and brand image of TDC. However the merging of such large businesses would result in a lot of Human Resource Management issues as the workers would have to be trained to work in one business and this could be costly in the short run increasing the costs of the business.

As HL is one of TDC's main competitors, the merger will reduce the competition for TDC and it will not have to advertise that much so the advertising and promotion costs will decrease significantly which will help TDC to achieve its objective of higher profit margins. However it can be seen that TDC has a profit margin of 7% $\left(\frac{\$23.8\text{m}}{\$340\text{m}}\times 100\right)$ while HL's profit margin is lower of 5% $\left[\frac{\$14\text{m}}{\$280\text{m}}\times 100\right]$ so it clearly shows that if TDC merges with HL the overall profit margin would fall below 7% which would not help TDC achieve their objective of higher profit margins.

The planned merger is likely to achieve TDC's objectives as the larger business would operate on a larger scale and would have higher sales as well as lower costs in the long run. However the success of the planned merger and whether it will achieve TDC's objectives will depend a lot on the financial position and brand image of HL and whether its employees will be motivated enough to work as a team with TDC's workforce.

NOVEMBER 2024 PAPER 3

Business Decision-Making

Habesha Clean Cooking (HCC)

Abeba graduated with a degree in Emotional Intelligence in Leadership in 2010 and then gained experience as a Human Resources manager in a large corporation. In 2015 she founded HCC, a social enterprise, based in country E in Africa. HCC’s mission statement is ‘to save the environment one meal at a time’.

HCC’s first product, the CookBag, was launched in 2015 and targeted low-income households in rural locations. The CookBag is made of premium recycled materials and allows food that has been heated on stoves to finish cooking without using extra energy. This reduces fuel needed for cooking. By 2024 HCC had sold 250 000 CookBags. HCC estimates this will save 125 000 tonnes of carbon dioxide a year.

Gradual expansion

In 2018, HCC partnered with a university to develop an efficient multi-fuel cooking stove that produces no smoke. Effective operations planning enabled the Wonder Stove to be launched in 2020 on schedule, with no delay to critical activities. It is manufactured in HCC’s factory and expansion was financed by bank loan.

Employees matter

Abeba believes skilled employees are central to HCC’s success. The 60 factory employees are organised into quality circles and given paid time to meet to consider problems. Abeba discusses HCC’s plans regularly with employees. Abeba expects employees to work hard and negotiates their targets annually.

HCC audits employee performance annually. See Table 1.1.

Table 1.1 HCC performance review of employees manufacturing CookBags

	2022	2023	Notes
Output of CookBags	49 700	60 000	Target output for 2023 was 58 000
Average number of employees	7	8	Employees contracted to work 235 days per year
Labour productivity	7 100	**See Q3a**	
Days lost due to absenteeism	30	32	In 2023 the average manufacturing absenteeism rate in country E was 5%

HCC also reviews employee satisfaction regularly and in 2023:

- 80% were very satisfied with their job
- 90% felt that HCC values employees highly
- 85% considered their 5 days annual training to be beneficial

Employee comments included:

- ‘Much better employer than my previous company’
- ‘Pay is good and working conditions excellent’.

Following the 2023 review, Abeba has decided to invest in new employee facilities including a canteen and a rest room. This will cost HCC $500 000 and cause disruption to production during building work. The Operations Manager has produced a critical path analysis (CPA) for the work and says it will be completed within six weeks. Abeba is concerned that any delay will be costly to HCC but has given permission for the work to start immediately.

New competition

There has been growing interest in the market to supply cleaner cooking stoves to rural communities that lack electricity.

CA, a multinational business, entered the market with an innovative cookstove in 2024. Its cookstove is a direct substitute for HCC's Wonder Stove. CA is a much larger business and benefits from economies of scale. Although CA is not a social enterprise it does have a good reputation for corporate social responsibility (CSR).

Satisfactory profits?

Abeba is satisfied with HCC's financial performance, as the business is profitable and sales are increasing. However, the Finance Manager is concerned with the decrease in profit in 2024. He has prepared financial data for HCC to discuss with Abeba. He wants Abeba to agree to a strategy to increase profitability to secure HCC's future. He thinks that some tough decisions will need to be taken. Table 1.2 shows selected financial data and ratios for HCC.

Table 1.2 Financial data and ratios (financial years)

	2023–24	2022–23
Revenue ($m)	10.8	10.0
Cost of sales ($m)	6.4	5.55
Expenses ($m)	3.9	3.85
Interest ($m)	0.3	0.2
Gearing ratio	70%	60%
Current ratio	1.1 : 1	1.3 : 1
Acid test	0.4 : 1	0.7 : 1
Return on capital employed (ROCE)	3.4%	3.8%

International expansion

HCC uses digital marketing and social media to increase awareness of its products. However, Abeba believes that in rural communities personal demonstrations by HCC's regional sales agents have been critical to success.

Abeba has decided to increase sales in Africa by selling the CookBag and Wonder Stove in country K. She has created an export team to plan this expansion. The objective is to enter the market before competitors in January 2025. If some of the marketing activities are done simultaneously HCC should achieve its objective. The export team is deciding which method of market entry to use.

Answer **all** questions.

Question 1

Analyse **two** impacts on HCC of the increase in competition in country E. [8]

Suggested Answer

Increase in competition means the same type of products being sold by many firms in the same market. Due to the entry of CA, a large multinational HCC will have a fall in their market share. As CA has a very close substitute to HCC's product and CA enjoys economies of scale it will be able to keep a lower price which would attract customers away from HCC's CookBags and stoves lowering the revenue and profit of HCC as well as lowering HCC's market share. This lower revenue and profit will make it difficult for HCC to pay off the high amount of non-current liabilities HCC has taken as seen by the extremely high gearing ratio of 70% and thus HCC would continue to have to pay high interest expenses.

Secondly as CA, the large competitor has a lot of corporate social responsibility so it would have a strong brand name and HCC would have to increase the advertising and promotion to show consumers about its social enterprise objectives and this will mean greater cost of advertising for HCC which would mean greater cash outflows in the short run leading to low liquidity and cash flow problem for HCC. HCC would not have $500 000 to spend on improving the canteen and restroom facilities which could demotivate the employees leading to a rise in the absenteeism rate and this would mean disruption in the output of the CookBags and stoves reducing the workers productivity.

Question 2

Analyse **two** factors influencing HCC's method of entry into international markets. [8]

Suggested Answer

There are different methods of entry into international markets such as joint ventures, franchising and direct exporting. The first factor that HCC will have to consider is their high gearing ratio and very low liquidity ratios which shows that HCC is having financial woes and has less investment so it cannot make a huge investment. HCC would have to use the method of franchising which gives the advantage of the franchisee bringing in all the investment so the financial burden will not be on HCC and it would be able to have the HCC brand enter the country, but there would be a risk that the franchisee would tarnish the brand image of HCC due to unethical activities and this would lead to a large fall in sales.

The second factor that HCC would have to consider would be the nature of their CookBags and stoves. As it can be seen that the CookBags are sold to low income market segment so the CookBags will have to be sold in mass markets so it would be advisable for HCC to use an agent such as a large retailer to enter the new market. The agent will have greater knowledge of the market in the new country and would distribute the product on a large scale which would give the CookBags a greater chance of getting sold in a large volume giving much greater profits and revenue to HCC which could help HCC pay off the non-current liabilities and lower HCC's gearing ratio which is very high at the 70% mark.

Question 3

(a) Refer to Table 1.1. Calculate annual labour productivity for 2023. [1]

(b) Refer to Table 1.1. Calculate the rate of absenteeism for 2023. [3]

(c) Evaluate HCC's approach to human resource management (HRM). [12]

Suggested Answer

(a) $$\text{Labour productivity} = \frac{\text{output of CookBags}}{\text{number of workers}} = \frac{60\,000 \text{ units}}{8 \text{ workers}} = 7500 \text{ units}$$

(b) Total working days

= Number of workers × total days of each worker

= 8 workers × 235 days

= 1880 working days

$$\text{Absenteeism rate} = \frac{\text{days absent}}{\text{total working days}} \times 100$$

$$= \frac{32}{1880} \times 100 = 1.7\%$$

(c) Human resource is a business function that aims to deal with all worker related issues. HCC uses the soft approach to HRM in which workers are treated as Assets and trained and motivated to create a loyal workforce. HCC has used quality circles in which workers are paid to discuss improvement methods on how to maintain quality. This is a form of job enrichment which will motivate workers to work harder as being part of the quality circle will provide workers with self-actualisation and motivation of workforce will reduce the labour turnover. The absenteeism rate is very low at 1.7% only so this helped HCC produce 60,000 CookBags which is 2000 CookBags above the target of 58000 which helped increase the revenue of HCC gaining more market share.

Further Abeba discusses plans with workers which is a democratic leadership approach and this helps as the workers can come up with new ideas that can help HCC bring in new ideas that could help compete with CA by bringing in Unique Selling Points in the CookBags and stoves helping HCC become more successful with higher market share. Also the soft approach has raised productivity levels from 7100 to 7500 CookBags per worker which could reduce unit costs and increase HCC's competitiveness. However the discussion with the staff could slow down the decision making process and the international expansion could be delayed. Further paying the workers to take part in the quality circles is increasing the costs of HCC and the profit margins are decreasing which will leave less funds for reinvestment for the plans to enter international markets.

As HCC is a social enterprise and social enterprises have social objectives of providing benefits to society so it is important for HCC to use this soft approach to HRM as it enhances their image as an ethical business and shows that HCC values the betterment of society as more important than profits which improves its brand image helping increase sales. However, the financial cost to HCC of the soft approach to HRM is very high and its profits are plunging so it can only continue this approach if it can keep increasing its sales otherwise it will have to change its approach to HRM towards the hard approach.

Question 4

(a) Refer to Table 1.2. Calculate for 2023–24, the operating profit margin. [4]

(b) Evaluate methods HCC could use to increase profitability. [12]

Suggested Answer

(a) Operating profit

= Revenue – Cost of sales – Expenses

= \$10.8 m – \$6.4 m – \$3.9 m

= \$0.5 m

$$\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Revenue}}$$

$$\text{Operating profit margin} = \frac{\$0.5\text{ m}}{\$10.8\text{ m}} \times 100 = 4.63\%$$

(b) Profitability is the difference between revenue and costs. HCC's profit margin has decreased from 6% in 2022 / 23 to 4.6% in 2023 / 24. First of all HCC could adopt a more hard approach to HRM as currently they pay workers to take part in the quality circles and the workers also say "pay is good". Thus the high wages cost should be reduced in order to bring down the expenses which would improve the profitability. Instead of paying high salaries, HCC could introduce piece rates where workers would be paid according to the output which would lower the wage cost. However lowering the wage cost could demotivate the workforce and this could lead to a high labour turnover in the future which would ultimately lead to a higher recruitment and training costs in the long run.

Secondly, HCC could switch from using premium recycled material to less costly raw material which would bring down the cost of sales which has risen by \$0.85 m as compared to sales which has risen by \$0.8 m and this is causing falling in profitability. Cheaper raw material would increase profitability and the salaries would not have to be lowered thus avoiding the potential problem of demotivation. However the lower cost of recycled material could mean lower quality raw material which would affect the brand image as well as product performance and the customers would easily shift to CA's stove which would result in HCC losing market share and profits in the long run.

As HCC has a strong mission statement it should use the social media to create strong branding and raise the prices of its products. The higher price would improve profitability and as people appreciate environmentally friendly products the overall sales would remain high increasing profitability. However selling at higher prices especially to low income market segment would go against the objectives of social enterprise which HCC claims to be and a huge backlash on social media would take place.

Overall, the best method for increasing profitability would be the cutting down of costs of workers by lowering salaries. HCC would use non-financial methods of motivation to keep them motivated. Thus HCC would not have to raise the prices or lower the cost of sales as that would have a huge negative impact on their social enterprise objectives of providing good quality CookBags and stoves at affordable prices.

Question 5

Evaluate the usefulness to HCC of critical path analysis (CPA) as a management tool for operations planning. [12]

Suggested Answer

Critical path analysis is a project management technique that helps arrange the activities in a project to show the critical and non-critical activities and forecasted duration of projects. CPA has helped HCC forecast that the construction of facilities will take 6 weeks which can now be used as a deadline to motivate the workers and monitor the project so that it is done within 6 weeks which will ensure that there is less disruption to production and the output can continue increasing sales. Secondly CPA will help HCC identify the critical path of any projects they undertake and HCC would ensure they have the resources and manpower to finish the critical activities on time so that the projects don't get delayed and this will save the costs for HCC helping improve their profitability which would help increase the funds for HCC's international expansion plans. However CPA has a major limitation as a technique that all the durations are forecasted and the operations manager who made the CPA could have inaccurate forecasting which would make the CPA not very useful for HCC. Another usefulness of CPA would be that it would tell the Earliest Start Times (ESTs) of each task in the construction projects which would help HCC bring the resources according to the ESTs and this would mean resources being available only when needed which would improve the cash flow of HCC as it would not have to keep resources beforehand. However CPA implementation and use would require a high initial cost in IT as well as in training and recruitment of skilled staff as it is a complex technique. Overall CPA would help manage projects especially large ones such as entering international markets and help them to be achieved without delays yet the usefulness of CPA would greatly depend on the accuracy of the data and whether the durations have been predicted accurately. HCC had a good experience as there was no delay in the critical activities when making the stove so it would mean that HCC are well able to use CPA effectively and it is a technique HCC are familiar with. Further as HCC has a motivated staff so the staff would also play a vital role in helping meet the deadlines which means CPA would be very useful for HCC in managing their projects.

NOVEMBER 2024 PAPER 4

Business Strategy

Puli Insurance (PI)

PI only sells its own car and home insurance. It was set up as a private limited company in 1988 by Kwami Puli to sell insurance to customers in country D. Kwami was Managing Director (MD) until 2019 when he retired. His son, Idir, became the new MD. Kwami remains the largest shareholder of this family business.

Timeline of PI

2020	Idir believes that PI has poor employee performance. He dismisses the Human Resource (HR) manager and adds the role to his own duties. Idir commissions an independent business analyst to report on the HR issues in the company (see **Appendix 1**).
2021	Idir reviews the existing organisational structure (see **Appendix 2**) and makes recommendations to the Board of Directors (see **Appendix 3**), which are quickly adopted.
2022	All PI managers are sent on a five day off-the-job training course to encourage intrapreneurship. Trade union membership (as proportion of total workforce) increases to 60%.
2023	Idir implements a ‘paperless office’ policy which orders all employees to use electronic communication whenever possible. All employees are issued with a smartphone for business use only.
2024	Idir is interviewed by a trade magazine about his first five years as MD of PI (see **Appendix 4**).

Developing a new business strategy

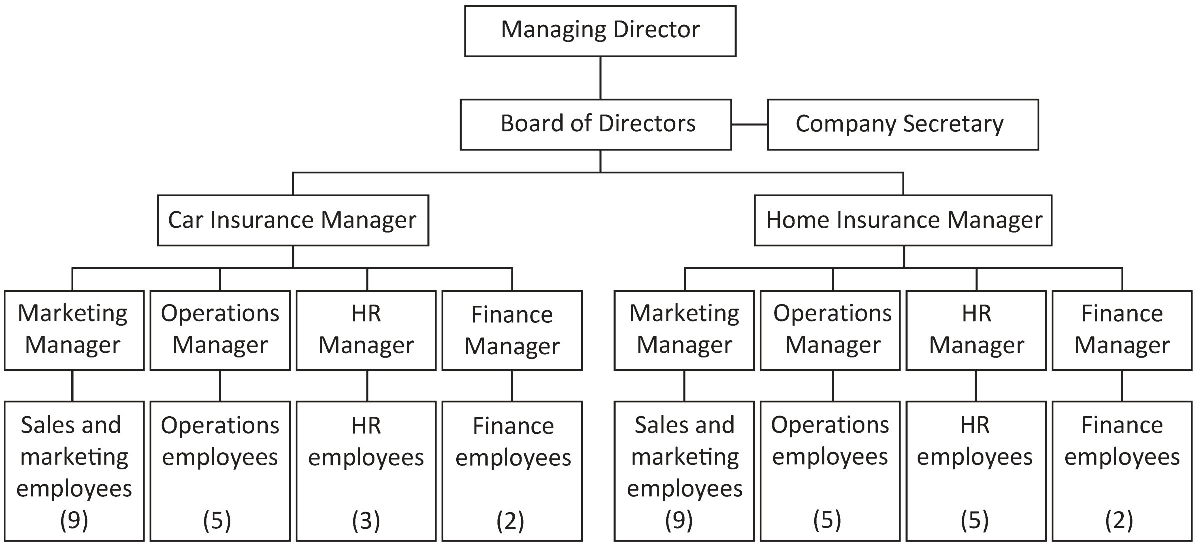
Idir wants to target pet owners to sell them pet insurance (to pay for medical treatment for domesticated animals). The market for pet insurance in country D is growing rapidly and is set to reach $5bn by 2026. The market segment is dominated by two large competitors and it will require significant investment to enter successfully. Idir believes that PI could gain economies of scale by selling to this market.

Idir will need advice on what accounting data he should use to help him develop this new business strategy.

Appendix 1 Extract from a report outlining the HR issues in PI in 2020

	PI	Industry average in country D
Labour turnover	2%	15%
Absenteeism	12%	5%
Lateness	27%	10%
Management average emotional quotient (EQ) score	120	80

Appendix 2 Organisational structure of PI in 2021



The number in brackets indicates the number of employees.

Appendix 3 Summary of Idir’s recommendations to the Board of Directors in 2021

- Delayer the organisation structure by combining the car and home insurance sections of the business, making the car and home insurance managers redundant.
- Reduce the number of functional managers and employees through involuntary redundancy.
- Decentralise decision making to the remaining functional managers.
- Introduce financial penalties for lateness and financial incentives for 100% attendance.
- Increase use of information technology (IT), especially in sales.

Appendix 4 Extract from a 2024 interview in a trade magazine

It has been an exciting journey since I took over from my father. He believed in soft HR and I do not. Our labour turnover has risen, but our cost of sales is low, and we have the highest gross profit margin in the industry.

We’ve doubled sales since 2020 with half the number of employees. Now there is almost no lateness or absenteeism. No other insurance business in country D has better trained employees than PI. I am proud to have led PI through the last five years and I look forward to increasing shareholder returns in the future!

Answer **Both** questions.

Question 1

Evaluate the success of Idir's strategy for improving employee performance between 2020 and 2024. [20]

Suggested Answer

Employee performance is a role of HRM that involves measuring the quality and quantity of output by an employee. There are different ways of measuring employee performance such as labour productivity and absenteeism rate as well as labour turnover rate. HRM is the business function that is involved with all worker related aspects such as training, recruitment as well as redundancy.

Idir dismissed the HR manager and took on the responsibility himself and he also decided to have an independent analyst make a report about the employee performance. The report showed that his father had used soft approach to HRM and that the workers had responded well to it with low labour turnover. However Idir changed the approach to HRM towards hard approach. By becoming the HR manager himself Idir reduced the cost of hiring a manager which would have increased profitability but only by a small margin, however Idir did not have the experience of being HR manager and workers would not have been comfortable with discussing their issues with him as he was the boss so this led to demotivation and worsening of labour relations and it affected the morale of the workers and the labour turnover started rising leading to higher recruitment costs. Thus overall there was no long-term benefit of having an independent analyst report or becoming HR manager in terms of employee motivation and satisfaction.

Idir then delayered the organisational structure and reduced the number of functional managers as well as decentralisation was introduced.

Delayering was removing layers of management and shortening the chain of command which improved the speed of communication and Idir would have got faster feedback from the employees and customer complaints and marketing decisions would have been made quicker leading to higher customer satisfaction as greater brand loyalty which increased sales. Further reducing the number of functional managers reduced the cost significantly which increased the gross profit margins that helped generate greater internal source of finance for the launching of the new pet insurance. However the involuntary redundancy had a huge impact on the job security and it greatly demotivated the workers which reduced the level of job satisfaction and affected the quality of the insurance services provided to the customers. Delayering also reduced the level of supervision as now there were less managers so the inefficiencies could creep up in the long-run.

To counter the lack of supervision due to lesser managers, Idir introduced financial penalties for lateness and financial incentives for 100% attendance. This would discourage absenteeism as well as lateness increasing productivity and sales for the business. Workers always being on time would have had a very positive impact on customer service improving the brand image of PI which would make it easy for the new pet insurance to be successful as the satisfied customers of PI home and car insurance who have pets would definitely get their pets insured with PI boosting revenues that would attract more investors in the future allowing PI to expand.

The use of IT and smartphones for all employees would have definitely resulted in the process innovation of the insurance services massively decreasing the costs along with the paperless environment which also decreased costs leading to higher profitability that could help fund extensive market research in order to provide the exact type of pet insurance product and services that people require which would ensure the success of PI's new service. However in the short-run the investment in IT and smartphones would have resulted in a huge cash outflow and it would have reduced the working capital making it difficult to pay their suppliers on time which would have worsened relations.

To conclude the strategies Idir used for improving employee performance between 2020 and 2024 was successful in terms of quantitative factors as PI had very high gross profit margins which means Idir successfully decreased costs by a great extent by ensuring the employees improved their performance for which he introduced hard approach and reduced lateness and absenteeism. However the success of Idir's strategies in the long-run will depend on a lot of external factors. We can see that Idir's strategies has resulted in increase in labour turnover and if there is high unemployment then Idir will be able to replace the employees leaving easily but if the unemployment falls then Idir will have to change his hard approach as when unemployment falls in a country then it is not easy to recruit workers and the high labour turnover in PI due to Idris strategies will become a services problem.

Question 2

Advise Idir on what accounting data he should use to help him develop a new business strategy for PI to sell pet insurance. [20]

Suggested Answer

Accounting data records the financial data and performance of a business and includes income statements that record the revenues and costs of a business to calculate profit or loss as well as ratio analysis which include profitability ratios such as ROCE, liquidity ratios like current ratio and investor ratios such as price to earning ratio which shows investor confidence.

Firstly the income statement will be a very important accounting data that Idir should use in order to develop the new pet insurance strategy. Idir should use the income statement in order to see how the costs and the forecasted sales of the new pet insurance strategy will affect the profits of PI. If the costs of the new strategy are too high, it would negatively affect the profits in the income statement then Idir would know that he would have to cut down expenses, which will help increase the profitability of the new pet insurance. Also using the income statement will also help Idir see how the forecasted costs and revenues would affect the retained earnings of PI. Overall the income statement would be very useful so that Idir would have an idea how the new pet insurance could add to the current sales of PI. However accounting data such as income statements would not show the qualitative factors such as the motivation of workers who are responsible for launching the new pet insurance and whether there are ethical issues being considered while launching the new insurance service. Accounting data is the statement of financial position which is a document that shows the net worth of a business by calculating its assets and liabilities. Idir would be able to see the amount of non-current liabilities that PI has and if the amount of non-current liabilities would be high (Highly geared) then Idir would be aware that he would not be able to take a loan to launch the new pet insurance and would either have to use internal sources of finance or issue shares to finance the pet insurance so the statement of financial position would be extremely useful in deciding the source of finance needed. Also the statement of financial position would show the current assets and current liabilities which would show the liquidity position and Idir would be aware of the working capital position which would show the amount of cash PI has and this would help plan how much to spend on the marketing of the new pet insurance and how much cash is available. However statement of financial position is a historical document and it quickly goes outdated as the values of current assets like inventory and non-current assets can change very quickly.

A cash flow forecast would also be a very useful accounting data as it would show the predicted cash inflows and cash outflows for a short-run period of the pet insurance. This would give Idir an idea whether he would be expecting positive or negative cash balances in the initial months of the new pet insurance launch and this would give good decision making information about important issues as whether credit could be given to the customers and how much time would be needed to pay suppliers as well as whether there would be need for bank overdrafts. All these vital decisions would help make sure that there would be enough liquidity in the business. However cash flow forecasts are predicted and if there were sudden changes in the economy then the cash flow forecast would quickly become obsolete.

To conclude the most important accounting data will be the cash flow forecast as in the short-run when launching a new product / service such as the pet insurance the cash flow and liquidity has to be strong as initially a lot of promotion and marketing will be required which means large cash outflows so it will be essential for Idir to have a good idea of how much cash there is for the launch of the new insurance. In the long-run once the pet insurance scheme has started then accounting data about its profitability such as ratios like gross profit margin and ROCE (return on capital employed) would be used to judge the productivity of the new insurance schemes. However the accuracy and usefulness of the accounting data will depend a lot on the external environment and Idir would not just rely on the accounting data and would have to analyse the social factors such as whether large market segment keeps pets and also whether he has proper motivated staff to undertake the launching of a new insurance scheme.