

Practice Paper Set 1, Paper 1 OCR GCSE Paper J204/1

Business 9-1; 1 hr 30 mins; Maximum marks: 80

Section A. For questions 1 to 15 completely fill in the circle alongside the appropriate answer.

- Q 1. Which **one** of the following is an example of a business operating in the service sector?
- A. A producer of disposable nappies
 - B. A horticulture business producing raspberries
 - C. A construction business building hospitals
 - D. A fruit and vegetable stall at a street market 1 mark
- Q2. Which **one** of the following best describes a partnership?
- A. Two or more entrepreneurs protected by limited liability
 - B. A family business in which all family members are equal
 - C. Two or more businesspeople working within unlimited liability
 - D. Friends working together with few if any disagreements 1 mark
- Q3. Which **one** of the following best describes market share?
- A. The share price for a company that's new to the market
 - B. The total value of all the sales made by all producers in a market
 - C. One company's sales as a percentage of all the sales in a sector
 - D. When share prices rocket after a successful new product launch. 1 mark
- Q4. Which **one** of the following is a common business objective?
- A. Survival
 - B. Doing what the government wants
 - C. To take over another business
 - D. To take risks 1 mark

- Q5. Which **one** of the following is an example of customer engagement?
- A. Offering a strong programme of post-sales service
 - B. Strong customer loyalty leading to increased profitability
 - C. Providing great personal service that delights a customer
 - D. Sales staff having a good level of product knowledge 1 mark
- Q6. Which **one** of the following would increase a company's staff retention?
- A. A rise in labour productivity
 - B. A programme of delaying the organisational structure
 - C. Introducing zero hours contracts for all staff
 - D. Working harder to recruit the right person for each job 1 mark
- Q7. Which **one** of the following is a good example of price skimming?
- A. Setting a price in order to maximise sales and market share
 - B. Setting a high price, to maximise profit margins and a quality image
 - C. Setting a low price to attract in a huge number of customers
 - D. Setting a price that's the same as your main rivals 1 mark
- Q8. Which **one** of these sources would provide information on the UK population?
- A. Focus groups
 - B. Census
 - C. Trialling
 - D. Primary research 1 mark
- Q9. Which **one** of the following is a characteristic of an entrepreneur?
- A. Wealthy parents
 - B. Motivates others
 - C. Creativity
 - D. Careful planner 1 mark

- Q10. If sales rise from 1,200 to 1,380, have they risen by?
- A. 15%
 - B. 13.04%
 - C. 10.4%
 - D. 38%
- 1 mark
- Q11. Which **one** of the following is an example of a horizontal takeover?
- A. A chain of pet shops buys a producer of cat food
 - B. A UK games software producer buys a competitor
 - C. An advertising agency buys a High Street bank
 - D. A yogurt manufacturer buys a dairy farm
- 1 mark
- Q12. Which **one** of the following is an important benefit of good design?
- A. Adds to the cost of the product
 - B. Makes better use of digital distribution channels
 - C. Can boost attractiveness to the consumer
 - D. It turns an invention into an innovation
- 1 mark
- Q13. Which **one** of the following is a disadvantage of a narrow span of control?
- A. Communication is too slow among managers
 - B. Costs may be growing too fast to afford quality inspections
 - C. Leaves too few rungs on the career ladder
 - D. Risks too much delegation from manager to worker
- 1 mark
- Q14. Which **one** of the following is an example of a vocational qualification?
- A. Gaining a UEFA 'B' licence for football training
 - B. Gaining a '2.1' degree at Cambridge University
 - C. Getting 7 GCSEs including English and Maths
 - D. Winning the Under-19s trophy for 100 metres
- 1 mark

Q15. Which **one** of the following could be a cause of skill shortages?

A. Free movement of labour within the European Union



B. Companies spending too little on training their staff



C. Schools encouraging students to do sports, musicals and drama



D. Companies offering more Apprenticeships



1 mark

Section B

Answer **all** the questions

Q16.

Text 1. Nottingham's first independent doughnut shop.

The Nottingham Doughnut Company (NDC) is soon to open a new store in Derby city centre. Shop owners Megan Scaddan, 23, and fiancé Wade Smith, 24, have already made an offer on a property in the town centre. "We chose to open in Derby because it is local and a lot of our customers are from there. We've found an amazing building that is fully furnished and has two floors so we can create a full-on café experience." The shop offers over 50 flavours including Nutella, Lemon Meringue, Cherry Bakewell and Red Velvet. The couple began making doughnuts in Megan's home kitchen in Silverdale and selling them via Facebook and on a market stall at weekends.

In November 2015, they opened their first shop in Long Row, just off Market Square, and now sell around 7,000 doughnuts each week. The cakes are produced in a bakery unit in Colwick which employs ten staff. Wade said: "Our plan is to potentially open a couple more shops this year – we're thinking maybe Leicester is next. "We just want to keep making more doughnuts and keep opening shops until we've had enough. People have suggested franchising but we're not really looking into that yet."

The couple hope to find out about their new property next month and have their Derby store up and running by March. Source: Notts TV January 13th 2017

a) State two benefits to a start-up of business planning.

(2)

b) Explain the benefit to NDC from growing organically. (2)

c) Explain one problem the Nottingham Doughnut Company may have faced when it started up in 2015. (2)

d) Explain one advantage to the Nottingham Doughnut Company of using market research. (2)

e) Analyse one stakeholder group that might be unhappy about NDC's business. (3)

(f) After opening its Derby store, NDC plans to carry on growing by opening new stores.

fi) State one advantage to a business of growing by opening new retail shops. (1)

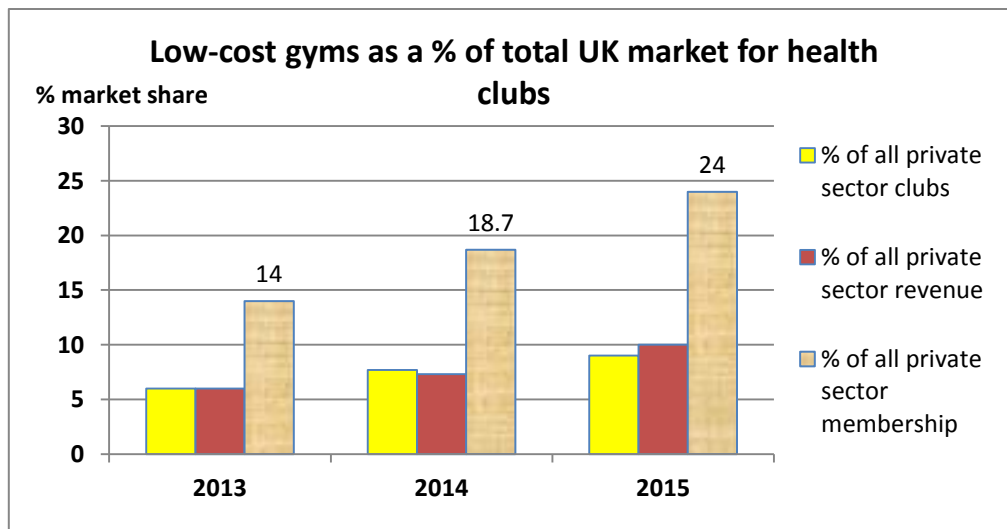
fii) State one disadvantage to a business of growing by opening new retail shops. (1)

fiii) Evaluate whether or not NDC should plan for continued growth by opening new shops. (7)

Text 2. David Lloyd Leisure

David Lloyd Leisure (DLL) was founded in the 1980s and was the first really high-end health club chain in the UK, focusing especially on tennis. Later, competition arrived from Virgin Active and others, but DLL has maintained its status as number 1 in the UK market, with annual sales of more than £500 million.

The market for high-end health clubs proved remarkably strong during the 2009 recession, both in the UK and elsewhere in the developed world. More challenging has been the arrival from 2008 of a wave of low-cost gyms, which offer 24-hour access to equipment at prices as low as £15 a month (DLL centres are around £90 a month).



At low cost gyms, customers have 24-hour access by electronic key-card, though there are no staff on hand to offer support or advice. By contrast, David Lloyd has more than 5,000 staff, as shown in the Table below.

David Lloyd Leisure Diversity Report 2016: our employees

	Male	Female
Directors	7	0
Senior managers	7	2
Employees	2,374	2,902

17a) Identify one item of content in the job role of a:

i. Director (1)

ii. Senior manager (1)

17b) Identify two benefits David Lloyd might gain from recruiting externally. (2)

1. _____

2. _____

17c) State one method of digital communication a business might use between staff. (1)

17d) What percentage of all David Lloyd’s employees are female? (3)

Show your workings.

Answer _____

17e) The data at the end of Text 2 might suggest workplace discrimination at David Lloyd Leisure. Analyse the effect that might have on the business. (3)

17f) The Directors of David Lloyd Leisure are wondering whether or not to launch their own low-cost ‘DL Gyms’ in city centres.

Analyse whether the company should, or should not, launch their own chain of low-cost gyms.

i. Should launch (3)

ii. Should not launch

(3)

17g) Recommend whether or not DLL should launch its own chain of low-cost gyms. Give reasons for your answer.

(3)

Text 3.

The Chokolit Story

Louis Barnett became famous as a 15-year-old Chief Executive. His business of making chocolate became so successful that it was stocked by the Waitrose chain of supermarkets. The business is called Chokolit Ltd. Louis set up his confectionery company at the age of 13. Two years' before then he had dropped out of school because of dyslexia. The company name comes from how Louis always spelt chocolate.

While they tutored Louis at home, his parents helped him experiment with chocolate and develop his own unique products. Barnett sent a sample to buyers at Waitrose and they were so impressed that two days later they requested a meeting. Later Waitrose agreed to stock a range of Chokolit products. On the back of the meeting the family secured a £5,000 grant from regional development agency Advantage West Midlands.

To cope with the demand, chocolate-making machinery was bought from Belgium and production moved to a site in Bridgnorth, Shropshire. To handle the growth, the company employed a full-time secretary and a projects manager.



Louis Barnett helping in the production process

18a) Analyse two reasons why Louis may have decided to establish Chokolit as a private limited company. (6)

Reason 1.

Reason 2.

18d) Analyse the importance of these elements of the marketing mix to the early success of Chokolit. (6)

Element 1. Product: _____

Element 2. Place _____

e) Recommend which of the two elements you believe to have been the more important to the early success of Chokolit. (3)

END of questions, Set 1 Paper 1

Practice Paper Set 1, Paper 2 OCR GCSE Paper J204/2
Business 9-1; 1 hr 30 mins; Maximum marks: 80

Section A. For questions 1 to 15 completely fill in the circle alongside the appropriate answer.

Q 1. Which **one** of the following is an example of a fixed cost?

A. Interest charges

B. Packaging materials

C. Delivery costs

D. Components

1 mark

Q2. Which **one** of the following is a benefit of an efficient procurement process?

A. Customer deliveries on time every time

B. Raw materials bought at exceptionally low unit costs

C. Successful use of Total Quality Management (TQM)

D. Financing growth without losing control of the business

1 mark

Q3. Last month a company had total costs of £40,000, fixed costs of £16,000 and sold 2,000 units at an average price of £30 each. What was its profit?

A. £20,000

B. £4,000

C. £36,000

D. - £20,000

1 mark

- Q4. Which **one** of the following is an example of research and development?
- A. Using internet research into your competitors
 - B. Using questionnaires to find quantitative data
 - C. Experimenting with new, lighter materials
 - D. Interviewing consumers face-to-face 1 mark
- Q5. Which **one** of the following would lower a company's break-even point?
- A. A fall in sales
 - B. New laws making it costlier to employ staff
 - C. Cutting the price of its best-seller
 - D. Pushing prices up 1 mark
- Q6. Which **one** of the following is a benefit of an overdraft as a source of finance?
- A. Its flexibility means that interest payments can be low
 - B. Overdrafts are a low-cost way of borrowing for 1-3 years
 - C. Overdrafts are at 24-hours recall by the lender
 - D. An overdraft helps a small business get a government grant 1 mark
- Q7. Which **one** of the following is an external influence on business?
- A. Changing technology
 - B. Cash flow difficulties
 - C. Switching from a partnership to a sole trader
 - D. Differing aims and objectives 1 mark

- Q8. Which **one** of the following is a benefit to businesses if unemployment is high?
- A. Business revenue is likely to be high
 - B. Staff retention should be high
 - C. Unit costs can be kept high
 - D. Staff motivation should be high 1 mark
- Q9. How might the arrival of a multinational company benefit the local population?
- A. Provide more competition for local companies
 - B. May increase the rate of extraction of local resources
 - C. Multinationals bring in many managers from the West
 - D. Global standards of business practice help train local employees. 1 mark
- Q10. Which **one** of the following decisions would benefit from break-even analysis?
- A. Whether to get a longer credit period from suppliers
 - B. Whether to issue more shares to raise more capital
 - C. Whether to increase the price of our products
 - D. Whether to calculate the average rate of return 1 mark
- Q11. Which **one** of the following is a benefit of face-to-face selling?
- A. Easier to answer unexpected queries from customers
 - B. Less costly than selling via your own e-commerce site
 - C. Benefits the logistics of customer delivery
 - D. Less need for sales staff to have good product knowledge 1 mark
- Q12. Which **one** of the following is a business problem that would result from climate change?
- A. Higher temperatures might hit sales of ice creams and lollies
 - B. Changing levels of consumer income and unemployment
 - C. Labour retention might be harmed, pushing up costs
 - D. More erratic weather might make logistics less efficient 1 mark

Q13. Which **one** of the following customer orders could best be met by batch production?

- A. Regular order for at least 20,000 packs a day
- B. A tailor-made version to suit one customer's requirements
- C. A brand new yacht for the Royal Family
- D. 500 Size 12s in red; 200 Size 12s in blue 1 mark

Q14. Which location factor would be most important for a new e-commerce clothing retailer?

- A. Proximity to the market
- B. Proximity to clothing suppliers
- C. Total operating costs
- D. Proximity to key social media outlets such as Instagram 1 mark

Q15. Which **one** of the following might help overcome a period of negative cash flow?

- A. Giving a longer credit period to customers
- B. Buying in more stocks to prepare for higher sales pre-Christmas
- C. Getting a longer credit period from suppliers
- D. Cancelling a high-cost bank overdraft facility 1 mark

End of Section A

Section B

Read the following extract carefully, then answer ALL questions

Write your answers in the spaces provided.

Text 1.

In 2006 Sarah Wood gave up her job as a lecturer to co-found 'Unruly' – an 'ad-tech company'. In the past TV advertisements would be tested on focus groups before appearing (expensively) on TV. *Unruly* tests advertising through social media, testing especially for emotional impact and authenticity – which can be summed up as the potential to go viral.

For nine months the business struggled, with its cash position looking awful until winning a major contract from the BBC in December 2006. After that, a series of major clients were won, such as Pepsi and Levi's. And Sarah widened *Unruly's* scope, so that today a client may simply say they want a million 'views' targeting students. Unruly will find a writer, a producer and director and get an advertisement made – and tested. Despite this, Sarah likes to emphasise that the heart of the business can be summed up as: 'We don't make ads, we make them famous'.

The business grew so fast and profitably that in 2015 it was sold for £58million to (American) News Corporation. Sarah remains chief executive of what, by 2017, had become a business with 300 staff in London, Tokyo, Australia and India.

16a) State two benefits to a business of staff with good product knowledge. (2)

16b) Explain one important location factor for a business such as *Unruly*. (2)

16c) Explain one benefit to *Unruly* of careful cash flow forecasting. (2)

16d) Explain one advantage to Unruly of having multinational customers such as Pepsi and Levi's . (2)

16e) Analyse one reason why a business such as *Unruly* might face an 'awful' cash position. (3)

16f) In one new project Sarah has planned, she needs to work out whether profits will be high enough. She estimates that it will take 6 months to get going, and then the monthly customer numbers will range between 8 and 16. The figures are as follows:

Average price to the customer: £6,000

Average variable costs: £2,500

Monthly fixed costs of running the project: £36,000

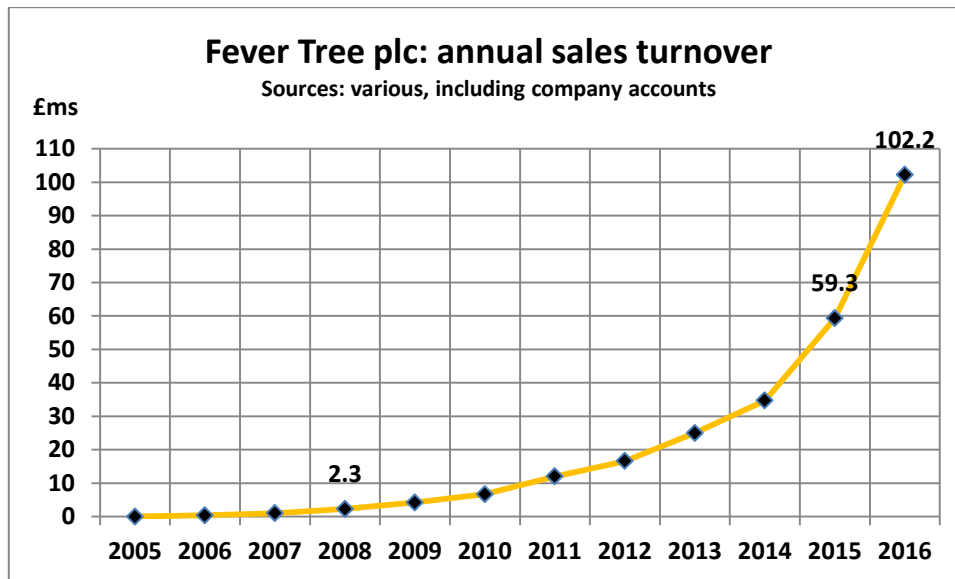
fi) Calculate the monthly profit if customer numbers are at the minimum level. (1)

fii) Calculate the monthly profit if customer numbers are at the maximum level. (1)

fiii) Evaluate whether Sarah should go ahead with this project. Give reasons for your advice. (7)

Text 2. Fever Tree UK

Fever Tree is a hugely successful UK branded producer of tonic water and more than twenty other 'mixer' soft drinks. In 2016 56% of its sales were overseas. These products were exported from the UK. The company's success is shown in the accompanying graph.



Fever Tree relies on one main bottling partner in the UK and third party warehousing facilities in the UK and the US. In addition, the Group is dependent on the supply of a number of key ingredients for its products, such as quinine and fresh green ginger, for which there are a limited number of suppliers.

The Group would be affected if there were a significant disruption to any of the Group's key raw material suppliers, production, storage or distribution operations. In the event of such disruption the Group may not be able to arrange for alternative supply, production, storage or distribution on as favourable terms, or with sufficient speed to ensure continuity of business.

To reduce this risk, the business holds appropriate logistics insurance cover. The company also operates a detailed business continuity plan which reduces lead times in the event of disruption. In addition the Group's main UK bottling partner manufactures the Group's products across three bottling lines located in three distinct buildings across two separate sites. The Group also uses a separate UK bottler which provides a further back-up plan.

17a) Identify one reason why batch production might be suitable for Fever Tree. (1)

17b) Explain the importance of revenue to a business such as Fever Tree plc. (2)

17c) Explain how Fever Tree might benefit from quality control at its factories. (2)

17di) In 2015 Fever Tree's total costs were £42 million and rose to £67.8 million in 2016. Use the graph in Text 2 to calculate Fever Tree's profit for each year. (3)

17dii) Use these figures to calculate Fever Tree's net profit margin for 2015 and for 2016. Give your answer to 1 decimal place. (3)

17diii. Name two types of cost that add together to make 'total costs'

17div. Explain the importance to Fever Tree of the profit margin figures given in dii). (2)

17e) Explain the importance of efficient logistics management for Fever Tree. (2)

17fi) State one benefit Fever Tree plc has received from the success of its international branding.(1)

17fii) Evaluate whether globalisation helps the development of a business such as Fever Tree. (7)

Text 3. The ethics of pricing

Two drug companies have been accused of making illegal deals in order to inflate the price for life-saving hydrocortisone tablets in the UK. The government-financed Competition and Markets Authority (CMA) says that *Actavis* UK offered incentives to prevent its rival *Concordia* from competing. This left Actavis as the only supplier of the drug in the UK, allowing it to increase the prices charged to the NHS* by 80%. The agreements were made between January 2013 and June 2016 and enabled Actavis to increase the price from £49 to £88 per pack. *The UK’s National Health Service

Hydrocortisone tablets are prescribed to people whose glands do not produce enough steroid hormones, such as those suffering from Addison’s disease. About 1m prescriptions of the drug were distributed last year. Andrew Groves, the CMA’s senior responsible officer for the investigation, said: “Anti-competitive agreements can cost the NHS, and ultimately the taxpayer, by stopping competition. We allege these agreements were intended to keep Actavis UK in a position which could allow it to dictate and prolong high prices.”

The investigation is part of a wider clampdown by the regulator on the pharmaceutical industry. It fined U.S. multinational *Pfizer* a record £84.2m in December, after finding the price charged to the NHS for an anti-epilepsy drug was increased overnight by up to 2,600%.

18a) State one example of a business risk shown in Text 3. (1)

18b) Analyse one way in which the actions by Actavis could impact on each of the following:
bii) Shareholders (3)

biii) Workers (3)

biv) Recommend which of these three groups would be most affected by the actions of Actavis plc set out in Text 3. Give reasons for your answer. (3)

18c) Evaluate whether Actavis should make a take-over bid for Concordia. (7)

END of questions Set 1, Paper 2

Practice Paper Set 2, Paper 1 OCR GCSE Paper J204/1

Business 9-1; 1 hr 30 mins; Maximum marks: 80

Section A. For questions 1 to 15 completely fill in the circle alongside the appropriate answer.

- Q1. Which **one** of the following is an example of organic growth?
- A. Merger with a company of similar size
 - B. Taking over a direct rival
 - C. Widening the span of control
 - D. Developing new products 1 mark
- Q2. Which **one** of the following is a business with limited liability?
- A. A partnership
 - B. A public company
 - C. A sole trader
 - D. A start-up 1 mark
- Q3. Which **one** of the following would increase a company's productivity?
- A. Redesigning a product to make it easier to manufacture
 - B. Increasing output to meet higher sales
 - C. Hiring more production staff
 - D. Increasing workplace discrimination 1 mark
- Q4. Which **one** of the following is an internal stakeholder group?
- A. Customers
 - B. Managers
 - C. Suppliers
 - D. The government 1 mark

- Q5. Which **one** of the following is an example of quantitative data?
- A. An insight into consumer psychology
 - B. Findings from a focus group
 - C. An examination of recent newspaper articles
 - D. A survey of 400 consumers' buying habits 1 mark
- Q6. Which **one** of the following is a way to segment a market?
- A. Consumer lifestyles
 - B. Best-selling products
 - C. By calculating market share
 - D. By trialling a new product 1 mark
- Q7. Which **one** of the following would be an effective way to select new staff?
- A. Job description
 - B. Job induction
 - C. Job retention
 - D. Job interview 1 mark
- Q8. Which **one** of the following is the best explanation of a loss leader?
- A. The company with the biggest fall in market share
 - B. Cutting costs as low as possible
 - C. Launching at a price that's below cost, to build market share
 - D. In a tough market it's the business making the biggest losses 1 mark
- Q9. Which **one** of the following gives an entrepreneur's attitude to risk and reward?
- A. Risks are acceptable if rewards are higher
 - B. Rewards are acceptable if the risk level is zero
 - C. The lower the risk the higher the reward
 - D. We should only go ahead if the risk level is zero 1 mark

Q10. A company's sales in the last 4 months have been:

4 months' ago: 640

3 months' ago: 760

2 months' ago: 690

Last month: 770

Which **one** of the following gives the average monthly sales level?

A. 695

B. 715

C. 725

D. 2,860

1 mark

Q11. Which **one** of the following is an example of a vertical takeover?

A. A chain of pet shops buys a supermarket

B. A UK games software producer buys a new computer system

C. A yogurt manufacturer buys a dairy farm

D. Tesco stores buys its rival, Morrison's

1 mark

Q12. Which **one** of the following is a benefit of marketing through social media?

A. Messages may go viral

B. All messages are under your control

C. Good way to reach the whole population

D. Guaranteed to boost image among younger consumers

1 mark

Q13. Which **one** of the following is an accurate explanation of 'delegation'?

A. Instructing junior staff on what to do next

B. Passing authority down to more junior staff

C. Giving subordinates time off work

D. Asking subordinates for their opinions about key decisions

1 mark

Q14. Which **one** of the following is always a disadvantage of self-employment?

- A. Having to pay yourself every week
- B. Having to work very long hours
- C. No automatic provision of sick pay and pension
- D. Having to work 9-5 every day

1 mark

Q15. Which **one** of the following is a risk caused by poor communication?

- A. The company's chain of command may get too long
- B. An important customer may fail to get their goods on time
- C. Staff may find different ways of working
- D. The company may suffer from induction

1 mark

Section B

Answer **all** the questions

Q16.

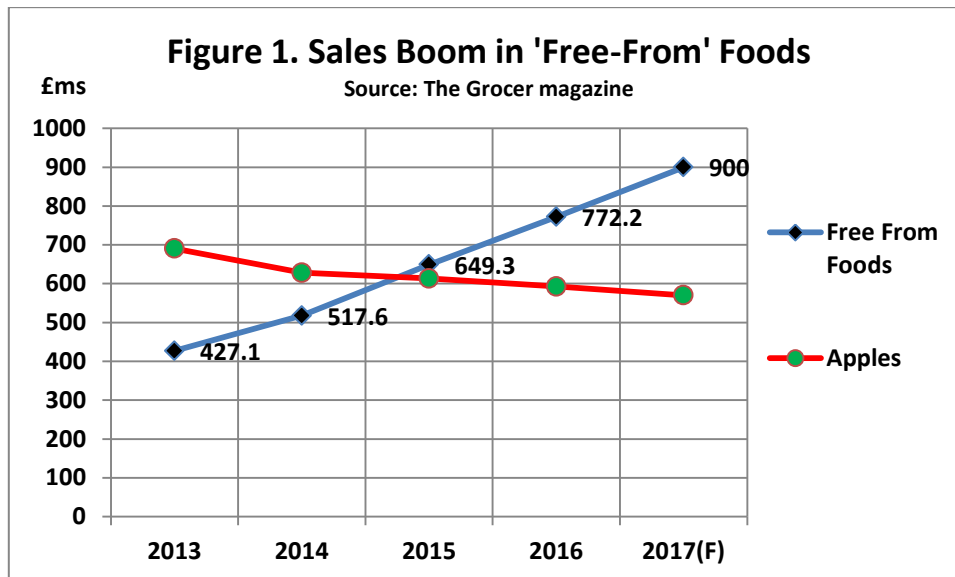
Text 1. The launch of Vegan Express

In 2015 Charles and Ulrika Diallo (see right) launched a restaurant and catering business, Vegan Express, in South-West London. They had recently turned against eating meat and dairy foods, and were aware of the supermarket boom in 'Free-From' foods such as Dairy-free (see Figure 1). They wanted to run a business together, and as Charles had experience in catering, a restaurant seemed ideal.



The menu is a mixture of vegan pizzas for around £10 and a range of other vegan, home-cooked dishes such as meat-free burgers with triple-cooked chips.

The Vegan Express website explains that: 'Our target is to be a first-class vegan restaurant chain and grow with the seemingly unquenchable appetite for plant-based alternatives to meat. Charles' motto has always been that you are only as good as your last plate of food and his drive comes from constantly developing and improving his methods and skills.' Good restaurant reviews from local papers and on Facebook (see Item D) suggest that Charles has been very successful so far.



Customer Feedback on Vegan Express

'Love it here, this is definitely a great spot. A regular lunch destination & the family who run it a lovely people.' Rachel Weech, Facebook, May 4th 2017

'Have been a vegan for years and this place managed to surprise me with the delicious menu. My husband isn't even a vegetarian and loved it too. Everything was very well seasoned beautifully presented and tasted fantastic. Well worth a visit.' Susan Denby, Facebook, November 13th 2016

16a) State two risks that Charles and Ulrika faced in starting this business. (2)

16b) From the graph (Figure 1), calculate the percentage increase in sales of free-from foods between 2015 and 2016. State the answer to 2 decimal places. (2)

16c) Explain **one** benefit a business might receive from carrying out primary market research. (2)

16d) Identify two ways in which Charles and Ulrika might segment their market. (2)

16e) Explain one benefit to Charles and Ulrika from using market segmentation in starting up their vegan restaurant. (3)

16f) Vegan Express has been doing well, but Ulrika thinks they would grow faster if they developed their website to encourage e-commerce ordering.

fi) State one advantage to a business of an improved website. (1)

fii) State one disadvantage to a business of focusing on a website. (1)

fiii) Evaluate whether a switch to e-commerce might help Charles and Ulrika to develop their business further. (7)

Q17**Text 2. Money and motivation**

The Walton Furniture Company (WFC) is a long-established, profitable business. Its sales revenue averages £15,000 per week, variable costs are 50% of revenue and the weekly fixed costs are £4,500. The owners have always believed that much of their success has been due to the incentive scheme they operate: the 4% commission on all sales provides a carrot of about £600 per week for the staff.

Recently, however, owner/managers Mr and Mrs Vine have seen takings hit following the departure of the only two full-time members of staff. Over the past eight weeks sales have averaged only £11,000. Mr Vine believes it is a temporary problem, as the two new full-timers find their feet. Mrs Vine decides to talk to each of the six staff members to find out their views.

Joyce, a 55-year-old part-timer, has no doubts: "It's the commission system that's causing the problem. Both the full-timers left because of it and I'm totally fed up with it as well ... The problem is that you pay commission only to the person who writes out the customer's bill. So no-one wants to do any of the other jobs such as checking deliveries, chasing up special orders or pricing the new stock. You keep asking me to do these jobs because you know I'm reliable; but that prevents me from getting commission."

Pritti, a 22 year old part-timer, is even more forceful: "I can't stand Grace (another part-timer) because she's always robbing me of my commission. Yesterday morning I spent two hours discussing sofas with a customer. After she'd settled on two £1,900 leather ones, she felt she should bring her husband along in the afternoon. And what happens? When I come back from my afternoon break I see them leaving and Grace is writing out the bill for £3,800. So she makes £152 for doing damn all, while I do the work and get nothing. I'm still fuming and I refuse to work with her again."

A shaken Mrs Vine then sees Margherita, one of the new full-timers. She is hardly reassuring: "I have never known such a touchy, back-biting staff. I'm seriously thinking of quitting. I got Joyce to do some pricing this morning and for the rest of the day she's been grumbling about Pritti getting a £1,000 order from a regular customer of hers. I can't see that £40 is worth all the fuss."

17a) Explain one advantage to a business of using a person specification within the recruitment process. (2)

17b) Identify two actions a business could take to help employee retention. (2)

1. _____
2. _____

17c) Identify one pricing method that might be used by the Walton Furniture Company. (1)

17d) Explain one problem created by the commission system used at the Walton Furniture Company. (3)

17e) Analyse **one** way in which WFC could use each of these methods of motivation.

i) Praise (3)

ii) Profit sharing (3)

iii) An improved work environment

(3)

iv) Recommend **one of these** approaches to staff motivation that should work best at WFC. Give reasons for your answer.

(3)

Q18.**Text 3. Buying a business**

Veritas Business Sales are delighted to offer for sale this respected Chartered Fishing Business which is located in the tourist hotspot and fishing town of Padstow in Cornwall. The business has been in the careful hands of my client for the last 15 years when he originally set it up; he is now planning a well deserved retirement. The *Lady Mary* is a nearly-new £40,000 fishing boat with on board toilet facilities which can carry up to 8 passengers. Its (freelance) skipper comes with vast experience and specialises in chartered fishing trips where even beginners can catch an array of fish to include: Blue Shark, Bass, Cod, Haddock and Plaice, to name but a few. The business is totally owner operated and has no staffing liabilities.

We believe that there is further potential to increase trade by offering scenic wildlife sea safari trips should any new purchaser wish to expand. The current owner is willing to stay on and train any new purchaser should they need any assistance. The business enjoys a strong reputation within the local community and beyond and as such has a high level of regular and repeat trade. This is a superb opportunity for any fishing enthusiast to purchase an established business which is a great base to build upon.

Selling price: £69,950

Annual sales revenue: £50,000

Trading period: April – October

Source: adapted from www.ukbusinessforsale.com

18a) Identify two sources of capital that might help an entrepreneur start up a business. (2)

18b) Identify one item of content in a:

i. Business Plan (1)

ii. Business objective (1)

18c) Explain **one** benefit to an entrepreneur of buying this business rather than starting up a fishing business from scratch. (3)

18d) Evaluate the balance between risk and reward in buying the Lady Mary. (9)

18e) Analyse which pricing method would be best suited to the Lady Mary in future. (6)

Pricing method 1.

Pricing method 2

18f) Recommend which pricing method would be best suited to the Lady Mary in future. Give reasons for your answer. (3)

END of questions, Set 2, Paper 1

Practice Paper Set 2, Paper 2 OCR GCSE Paper J204/2
Business 9-1; 1 hr 30 mins; Maximum marks: 80

Section A. For questions 1 to 15 completely fill in the circle alongside the appropriate answer.

- Q1. Which **one** of the following is an advantage of job production?
- A. Rapid response to customer orders, to get the job done quickly
 - B. Able to respond flexibly to a customer's specific needs
 - C. Encourages bulk buying and therefore lower costs per unit
 - D. Ensures production consistency, so that every product is identical 1 mark

- Q2. Which **one** of the following best describes legislation?
- A. Decisions by government on new laws that people must follow
 - B. The principles behind consumer rights and health and safety
 - C. The costs imposed by government that companies have to pay
 - D. Laws passed by parliament that set out what is legal and what isn't. 1 mark

- Q3. At the start of March a company has an opening cash balance of £12,000. Cash inflows in March are £40,000 and the closing balance for the month is £8,000. Which **one** of the following is true?
- A. The cash outflow in March was £44,000
 - B. The cash outflow in March was £32,000
 - C. The business has made a total profit of £20,000
 - D. The net cash flow for March was £4,000 1 mark

Q4. Which **one** of the following is a reason why a private limited company might turn itself into a public limited company?

- A. To give shareholders the protection of limited liability
- B. To get additional investment from the government
- C. To cut its tax bills, especially profit (corporation) tax
- D. To allow extra share capital to be raised via the stock market. 1 mark

Q5. Calculate the profit or loss if a company's fixed costs are £1,800 a week, variable costs are £5 a unit, the selling price is £9 a unit and sales are currently at the company's maximum output level of 800 units a week.

- A. £3,200
- B. Minus £1,400
- C. £1,400
- D. £5,395 1 mark

Q6. Which **one** of the following is an example of effective supply chain management?

- A. A steady rate of product recalls
- B. A streamlined production process with rapid delivery
- C. A strong and efficient job production system
- D. Suppliers that provide quality and reliability at low prices 1 mark

Q7. Which **one** of the following is a likely result of a rise in UK consumer incomes?

- A. Companies with higher sales will cut their prices
- B. Consumers will spend less on high-priced luxuries
- C. Sales might fall at £ stores such as Poundland
- D. UK companies will enjoy rising demand for exports 1 mark

Q8. Last year a company's sales revenue was £450,000, its cost of sales was £180,000 and net profit was £90,000. Calculate the company's gross profit margin.

- A. 60%
- B. 40%
- C. 20%
- D. 80% 1 mark

Q9. Which **one** of the following is an advantage of flow production?

- A. Flexible response to different customer orders
- B. Reliant on labour skills, not capital spending
- C. Works well for short-life-cycle products
- D. Allows for a high level of production consistency 1 mark

Q10. How might the growth of multinational companies benefit local business?

- A. Provide more competition for local skilled labour
- B. The competition may force them to become more efficient
- C. Multinationals may bring in their own managers from the West
- D. Multinationals are skilled at avoiding local profit taxes 1 mark

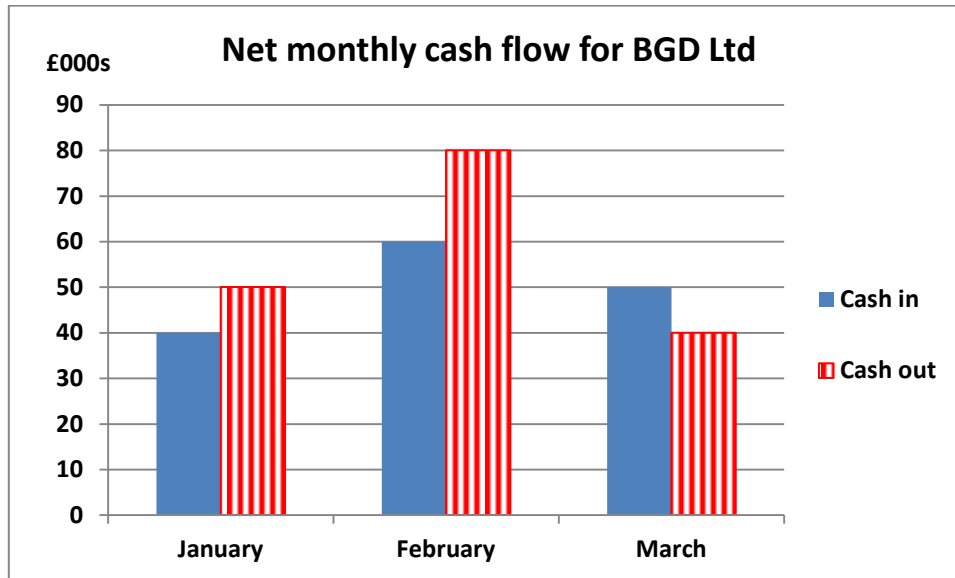
Q11. Which **one** of the following decisions by a business would help sustainability?

- A. Whether to issue more shares to raise more capital
- B. Whether to find a cheaper supplier of its raw materials
- C. A decision to use a higher percentage of recycled materials
- D. A careful calculation of the average rate of return 1 mark

Q12. Which **one** of the following is a benefit of crowdfunding?

- A. Brings in capital cheaply from many small investors
- B. Brings in loan capital – great at a time of low interest rates
- C. Brings in wise investors to help make important decisions
- D. It's a good way to sell off the assets of the business 1 mark

Q13. BGD Ltd started January with £20,000 in the bank. Does the business need an overdraft?



- A. No, because the bank balance will be zero by the end of March
- B. Yes, because the bank balance will be -£10,000 by end-February
- C. No, because the bank balance never becomes negative
- D. Yes, because the bank balance is close to going negative 1 mark

Q14. Which **one** of the following tasks would best be done by an industrial robot?

- A. Working on various tasks at a building site
- B. Producing high quality job production for tailor-made suits
- C. Fixing right-hand car doors on a flow production line
- D. Producing small batches of differently-sized goods 1 mark

Q15. Which one of the following is an important role of 'procurement' in business?

- A. To help in face-to-face selling
- B. To provide a system of quality assurance
- C. To choose reliable suppliers
- D. To inform planning decisions 1 mark

End of Section A

Section B

Read the following extract carefully, then answer ALL questions

Write your answers in the spaces provided.

Text 1. Islabikes

Shropshire-based Islabikes is the UK's market-leader for quality children's bikes, appealing to design-savvy parents and youngsters alike. At its helm is Isla Rowntree who founded the business in 2005 to fill a gap in the market. Her bikes were designed with the child in mind.

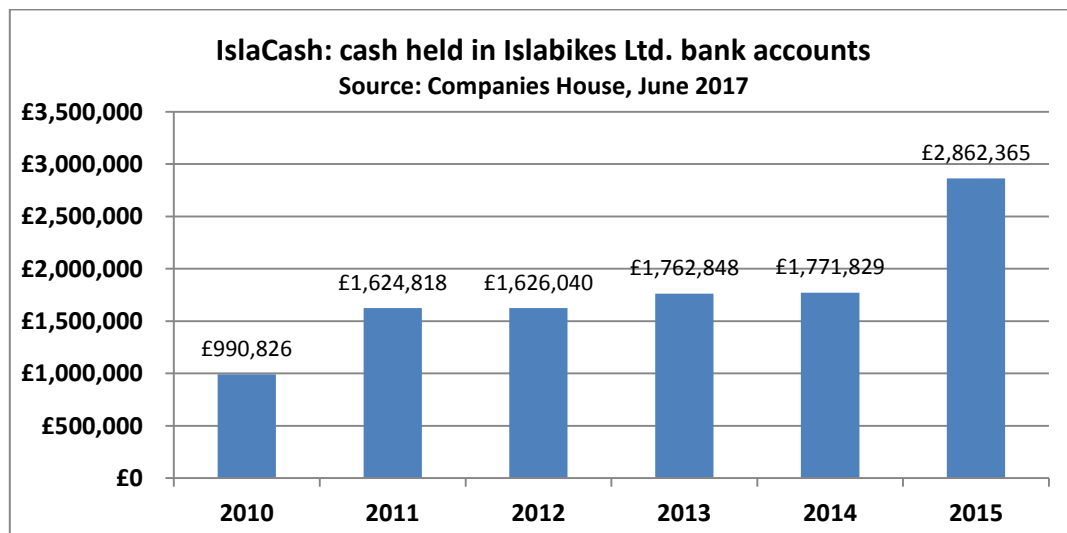
Isla Rowntree says: "Today, we're the market-leader for quality children's bikes (ages two to 14) with turnover increasing by around 30 per cent each year for the last three years. "We have high margins, thanks to our consumer-direct distribution. We design bikes ourselves, get initial manufacturing done in south-east Asia, then we do the final assembly before selling them directly.

"Promotional expenses are low – our main marketing tool is word of mouth. Parents of young children are sociable with other parents, aided by chatter on social media site *Mumsnet*. If we do a good job, parents just tell each other.

"We employ 25 to 30 people in Shropshire and opened in Portland, USA last year. We find it difficult to recruit qualified mechanics so we don't try, training people in-house instead. We aim for exceptional quality.

Source: Adapted from The Director magazine, June 2016

Islabikes Cash Position



16a) Calculate the percentage increase in cash between 2014 and 2015.

(2)

16b) Analyse two possible causes of the rise in Islabikes' closing cash balance in 2015.

Cause 1 (3)

Cause 2 (3)

16c) Analyse the possible impact on Islabikes if a TV programme revealed that staff were poorly paid and treated at the factory in south east Asia. (3)

16d) Analyse whether Islabikes is in a good position to cope if a new competitor enters the UK market for children's bikes. In your answer you should consider:

fi) The impact on Islabikes' finances (3)

fii) The impact on its stakeholders (3)

fiii) Recommend which impact of competition is the most likely to affect Islabikes. Give reasons for your answer. (3)

17.

Text 2. Lumo Cycling Wear

Doug Bairner, founder of Lumo, says he wants to reduce the number of cycling accidents by developing wearable, high-visibility technology that "looks as good in a bar as it does on a bike". There are close to a million cyclists commuting by bike in UK, far behind the likes of Japan and Germany with 11.5 million and 10.5 million city cyclists respectively. But the growth trend in the UK is clear.

The business started up in July 2014, financed by more than £300,000 of crowdfunding. Bairner says that: "92% of fatal cycling accidents occur in low light conditions yet only 10% of cyclists wear hi-viz clothing. Why? Because city cyclists dress for their destination as well as their journey and arriving at an office looking like a radioactive lemon just doesn't cut it.... LUMO's launch range incorporated in-built ultra high brightness LED lights that are visible from up to 400 metres away, yet are completely invisible until they're switched on.

The biggest challenge was product development and design as no one had figured out how to do what we do before. It took months of design, sourcing and testing work, which put a lot of pressure on our initial cashflow and on us to actually produce something.

When Jamie Wilkins (editor of *Urban Cyclist*) publicly praised our products it was a really sweet moment. This review helped sales take off – especially through e-commerce. E-tailing generates 60% of Lumo's UK sales."

Bairner concluded: "We're now doing well in the UK, but we want to succeed overseas as well."

Text 2a. Lumo financial details

- Average price for a cycling jacket: £200
- Average variable cost per jacket £100
- Yearly fixed administration costs for the business: £120,000
- Estimated sales for the coming year: £400,000

17a) State one difference between sales revenue and profit. (1)

17b) From Text 2a, calculate the net profit Lumo should make in the coming year. (2)

17c) Explain **one** reason why Bairner might be worried about financing further growth using bank loans. (2)

17d) Explain one problem Lumo may face in attempting to 'succeed overseas as well'. (2)

17e) Bairner is considering whether Lumo should boost its sales by opening more cycling shops in towns, instead of relying on e-commerce.

ei. State one disadvantage of growing by opening retail shops. (1)

eii. State one disadvantage of relying on e-commerce only. (1)

eiii. Evaluate whether Lumo should open retail shops in addition to e-commerce sales. (7)

17f) Doug Bairney has made some forecasts on opening his first *Lumo* shop. Using the information below, calculate the average rate of return (ARR). You are advised to show your formula and workings. (4)

Cost of the investment: £4,000

Forecast financial surplus created by the investment: £1,800 a year, for 4 years

Q18.

Text 3. Rip-off

In 2013, with a social media storm about rip-off touted ticket prices for concerts by Rihanna and others, Luke Massie decided to create a “free, open and transparent” website. It would be a peer-to-peer ticketing platform and app enabling fans to bypass the current secondary ticket market. Concert tickets could be bought and sold – but only for their face value.

Luke’s business (*Vibetickets*) received a boost when Richard Branson backed the business at the live final of the ‘Voom’ business start-up competition. News of this success spread the brand name across the internet. This eased the path to crowdfunding via Crowdcube, in which Luke sold 10% of the shares in the business for £600,000.

Vibe is about to launch the latest version of its app which hosts a variety of new features, as well as new profile management and a bespoke chat platform, built by their team of in-house developers. “We’ve got a really good team around us now and it’s all about perfecting our product and raising some more money which will take Vibe to the next level,” said Luke. Crowdfunding provides “a really good opportunity for anyone who shares our passion to get involved and be part of something so exciting and disruptive in the market. It’s time real fans stopped getting exploited.”

18a) State one example of good post-sales service that could be provided by a retailer. (1)

18b) Explain one way in which Vibe has benefited from the use of social media. (2)

18c) Analyse **one** way each of these stakeholders is benefitting from the service *Vibe* is providing.

1. Customers (3)

2. Shareholders (3)

18d) Recommend which of these groups is likely to benefit the most from the Vibe service. (3)

18e) To provide some income, Vibe charges a fee of 5% on every ticket purchase made through the website. Luke has forecast the following figures for the coming month:

Number of ticket purchases: 2,000

Average ticket price: £40

Variable cost per ticket purchase: £1

Monthly fixed costs: £2,200

i) Calculate *Vibe's* revenue for the coming month. (2)

Practice Paper Set 3, Paper 1 OCR GCSE Paper J204/1

Business 9-1; 1 hr 30 mins; Maximum marks: 80

Section A. For questions 1 to 15 completely fill in the circle alongside the appropriate answer.

Q 1. Which **one** of the following is a reason why a private limited company might turn itself into a public limited company?

- A. To give shareholders the protection of limited liability
- B. To get additional investment from the government
- C. To cut its tax bills, especially profit (corporation) tax
- D. To allow extra share capital to be raised via the stock market. 1 mark

Q2. Which **one** of the following is an example of price penetration?

- A. Pricing a new product above the level of direct rivals
- B. Pricing below cost, to try to drive rivals out of business
- C. Pricing low enough to build sales of a new product
- D. Pricing in line with prices set by rivals 1 mark

Q3. Which **one** of the following would improve a company's productivity?

- A. Higher output as a result of an increase in sales
- B. Reduction in staff numbers, though production levels don't change
- C. Opening a second factory to cope with a sales boom
- D. A rise in production matched by a rise in staff numbers 1 mark

Q4. Which **one** of the following is an example of a stakeholder group?

- A. Suppliers
- B. A trade union
- C. Social media
- D. Consumer rights 1 mark

- Q5. Which **one** of the following is an example of off-the-job training?
- A. Observing the work done by an experienced member of staff
 - B. Working on a supermarket checkout with a supervisor observing you
 - C. Working with others on a college problem-solving course
 - D. Spending a month in each of six different departments at work 1 mark
- Q6. Which **one** of the following is an example of digital communication?
- A. E-mail
 - B. Phone call
 - C. Staff meeting
 - D. Information poster 1 mark
- Q7. Which **one** of the following means that a company's sales have definitely risen?
- A. Market share is falling in a fast-rising market
 - B. Market share stays the same in a growing market
 - C. Market share is rising in a falling market
 - D. The market declines, but market share stays the same 1 mark
- Q8. Which **one** of the following is the best explanation of a merger?
- A. Working with another company to produce innovative products
 - B. Company X agreeing to be bought out by Company Y
 - C. A big business agreeing to be bought by a smaller one
 - D. Two businesses of roughly equal size agreeing to form a single company 1 mark
- Q9. Which **one** of the following is the first step in being a successful entrepreneur?
- A. Writing a business plan
 - B. Identifying the resources a business needs to operate
 - C. Spotting an opportunity
 - D. Developing an idea for a business 1 mark

Q10. Sales last year were 14,400. This year they are 12,600.

Which **one** of the following gives the correct percentage change?

- A. A fall of 12.5%
 - B. A rise of 14.3%
 - C. A fall of 87.5%
 - D. A fall of 1.25%
- 1 mark

Q11. Which **one** of the following would you expect to find in a candidate's references?

- A. An explanation of what the job contains
 - B. Analysis of the candidate's suitability for the job
 - C. A statement about the skills the company wants from the candidate
 - D. A story of the person's life
- 1 mark

Q12. Which **one** of the following is an important part of writing an effective questionnaire?

- A. Make sure that the questions are unbiased
 - B. Make sure that the questions have Yes/No answers
 - C. Make sure that full use is made of census results
 - D. Make sure that the questionnaire can be completed online
- 1 mark

Q13. Which **one** of the following objectives is best suited to a business start-up?

- A. Growth
 - B. Increasing output
 - C. Increasing market share
 - D. Survival
- 1 mark

Q14. Which **one** of the following shows how cost-plus pricing is calculated?

- A. Calculate the variable production costs then add a profit percentage
 - B. Calculate the average cost per unit then double it
 - C. Find out what competitors are charging, then add a profit percentage
 - D. Calculate average cost, then add a percentage to provide a profit margin
- 1 mark

Q15. Which **one** of the following shows all the Ps of the marketing mix?

- A. Price, Product, Promotion, Packaging
- B. Price, Packaging, People, Promotion
- C. Price, Product, Promotion and Place
- D. Price, Product, Promotion and People



1 mark

Section B

Answer **all** the questions

Q16.

Text 1. Coventry's first organic nursery is set to grow after business support

Coventry's first organic nursery is set to open a third room following huge growth over the past seven months. *Enchanted Day Nursery*, a three-floor nursery in Foleshill, now has around 30 children every day and has seen staffing numbers treble since opening in October 2016.

Directors Adele Payton and Carly Cullen have renovated the entire building from scratch themselves, to create the only organic nursery in the city. The nursery serves organic food, uses organic baby wipes, natural cleaning products and biodegradable nappies – which are included in the cost. The nursery has plans to open a fourth room by January 2018.

Adele and Carly both have extensive experience in childcare but had no previous business experience before starting up the nursery. Adele said: "We did a lot of market research into what was missing, where the gap in the childcare market was because there were lots of things that I wanted for my little girl at nursery that I could never find. "We have basically self-taught ourselves everything, we were walking in blind with no business experience, even down to payroll! It was great to have Margaret Bull from the Warwick Chamber of Commerce come here and give us that fresh pair of eyes to help us see where we could improve, she was a lot of help."

Margaret said: "The main emphasis was to help them with their marketing strategy, identifying what made them different and focusing on marketing activity that could impact their target market. The owners are very determined. They took on board the advice and now the nursery is achieving the financial objectives set out in the business plan and delivering high standards in child care. They started from scratch, are largely self-taught when it comes to business and are a great example of how you can start-up a successful company with hard work and a can-do attitude." Source: Adapted from www.midlandsbusinessnews.com June 20th 2017

Text 2. Childcare income

- Enchanted Day Nursery charges £25 for a half day's care 7.30 – 1.00PM. It doesn't run afternoon sessions.
- The nursery is open for 300 days per year
- By 2018 the business plans to cope with up to 60 children a day

16a) State two documents a job applicant may have to complete to have a chance of getting a job at the nursery. (2)

16b) Explain how the nursery's start-up may have been helped by drawing up a business plan. (2)

16c) Explain how the nursery might benefit from setting out clear job roles for its supervisors. (2)

16d) Identify one benefit to a new business of carrying out market research. (1)

16e) Analyse how Adele and Carly might motivate staff towards the same level of hard work that they put into the job. (3)

Q17**Text 2. Tackling an established business**

In Eastbourne, the south coast seaside resort, ice cream has long meant *Fusciardi's*. Started in 1967 by immigrants from Italy, its ice cream flavours and sundaes are essential to an Eastbourne summer. Today it's open from 9.00AM to 9.00PM, and run by the founders' great nephew. So how could any entrepreneur think there's a gap to be found in the ice cream market in Eastbourne?

For Claire Connelly, the answer would have to lie in the (fantastic) 635 *Fusciardi* reviews on Tripadvisor. These made it clear that the location could not be beaten (by the beach), nor could the Italian authenticity. If you want a strawberry ice cream to taste of strawberry, go to *Fusciardi*. So Claire decided to think of alternatives, and after twenty face-to-face interviews on the streets of Eastbourne, she came up with a plan: high quality soft-serve ice cream swirled straight into the cone (generously) – with a variety of dipping options. The ice cream could be dipped into hundreds and thousands or mini-Smarties or crumbled Flake or hot fudge sauce or chopped hazelnuts or caramel sauce or super-tasty crushed, dried strawberries. Or half and half!

But where should *Connelly's Soft-serve* be located? She thought about Eastbourne station, and about the other end of the beach to *Fusciardi*. But decided eventually to locate close to the big rival. Her logic was: 'where do Eastbourne ice cream lovers go? To *Fusciardi*.' Therefore that would maximise her target market. Not that she thought she'd grab all *Fusciardi's* business – simply that she'd capture a part of the ice cream trade – enough, with luck, to make a good living. And how's the business doing? Well, at the time of writing she has the finance in place (60% savings and 40% from a bank loan) but not yet found the right location. She hopes to open the business next Spring.

17a) Identify two types of business ownership that have unlimited liability. (2)

1. _____
2. _____

17b) Identify two business objectives Claire Connelly might have in mind when starting her business. (2)

- 1. _____
- 2. _____

17c) Explain one way in which Claire’s use of market research will have reduced the risks in opening her ice cream business. (2)

17d) Analyse one way in which Claire could use each of these marketing mix factors in starting up *Connelly’s Soft Serve*.

1. Price. (3)

2. Promotion (3)

3. Place (3)

17e) Recommend which one of these three factors is likely to prove the most important for Claire. Give reasons for your answer. (3)

17g) Evaluate the risks involved for Claire in setting up an ice cream business in direct competition with *Fusciardi*. (7)

18.

Text 3. The 3 in 1 Washing Machine

It was Reena's idea. She was so fed up with her Mum's moaning that she snapped: 'You won't be happy till there's a machine that washes, dries and irons all the clothes automatically'. When her boyfriend Danny heard about it, he started messing about with electronics; ten months later the 'Washerman' 3-in-1 washing machine was a full, working prototype.

Now came a big decision. Should they sell the idea to a big company, or try to manufacture it themselves? They decided to visit a bank manager for advice. Before going, they tried to work out the sums involved. The biggest cost would be bought-in components, so they felt fairly certain of the following estimates:

Components:	£670 per unit
Materials:	£50 per unit
Factory labour	£180 per unit

After further arguing they agreed that they could charge £1,500 per machine and should easily sell their total output of 300 machines per month. Armed with this information they went to the bank. The bank manager worked out the best and worst profit position based on the figures, then said:

"You need to do a lot more work before I can help. What about other costs such as advertising and marketing? You need a full business plan. Have you thought about the likely length of life cycle for the Washerman? And what your human resource needs? You need to plan this much more carefully."

18a) Identify two human resource needs for a new business. (2)

1. _____

2. _____

18b) Using an example from the text, explain **one** risk that Reena and Danny face in starting this business. (3)

18c) Analyse two benefits to Reena and Danny of making a realistic estimate of the length of the 3-in-1's product life cycle.

Benefit 1. (3)

Benefit 2. (3)

18d) Evaluate whether Reena and Danny should sell the 3 in 1 idea to an established company, or should carry on to launch it themselves. (9)

Practice Paper Set 3, Paper 2 OCR GCSE Paper J204/2
Business 9-1; 1 hr 30 mins; Maximum marks: 80

Section A. For questions 1 to 15 completely fill in the circle alongside the appropriate answer.

- Q1. Which **one** of the following is an influence of technology on production?
- A. Legislation
- B. Automation
- C. Induction
- D. Productivity 1 mark
- Q2. Which **one** of the following best describes quality control?
- A. Getting everyone in the business to care about quality
- B. Setting quality targets for everyone in the business
- C. A series of quality checks throughout the production process
- D. Inspecting the finished product before dispatch 1 mark
- Q3. A company has revenues of £160,000, fixed costs of £40,000, total costs of £90,000 and a break-even point of 10,667 units. Which **one** of the following gives the company's profit.
- A. £30,000
- B. £110,000
- C. £70,000
- D. £0 1 mark

- Q4. Which **one** of the following is a difference between cash and profit?
- A. Cash is measured constantly; profit covers a longer time period
 - B. Only cash can be affected by sales to customers
 - C. Only profit is affected by wages paid to staff
 - D. Neither cash nor profit is affected by telesales 1 mark
- Q5. A company's sales revenue is £400,000, its cost of sales is £220,000 and net profit is £40,000. Calculate the gross profit margin.
- A. 10%
 - B. 55%
 - C. 100%
 - D. 45% 1 mark
- Q6. Which **one** of the following is an example of effective logistics management?
- A. A fall in the level of quality rejects
 - B. Rising levels of automation in the factory
 - C. Customers receive the right goods at the right time
 - D. A rise in the level of labour productivity 1 mark
- Q7. Which **one** of the following is a likely result of a rise in a company's liquidity?
- A. Can respond quickly to investment opportunities
 - B. May need to delay payment to suppliers
 - C. May need to raise more capital, e.g. by crowdfunding
 - D. Can find itself short of the ability to pay its bills 1 mark

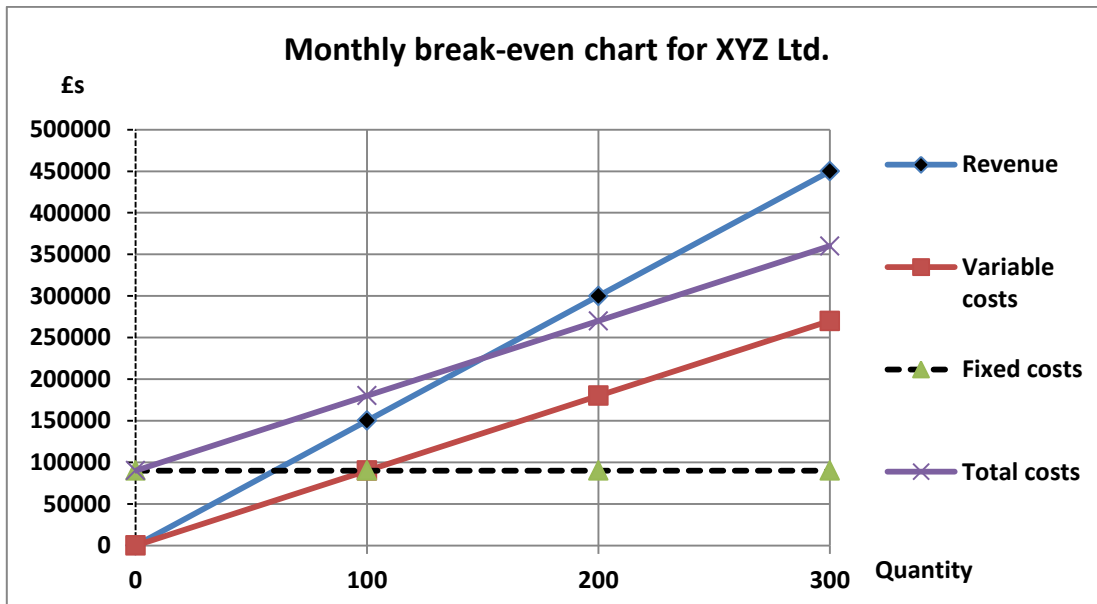
Q8. Why might a UK company pay staff below the minimum (living) wage?

- A. Because there's no law to stop directors paying meanly
- B. Because any fines are probably smaller than the wages saved
- C. Because it believes workers are important stakeholders
- D. Because ethical considerations are important to all companies 1 mark

Q9. Which **one** of the following might be a result of falling unemployment?

- A. Consumers cutting back on luxury spending
- B. Companies that are recruiting having more staff to choose from
- C. A rise in productivity in most or all companies
- D. Companies struggling with worsening labour retention 1 mark

Q10. From this break-even chart, estimate the monthly break-even point



- A. 100 units
- B. 300 units
- C. 150 units
- D. £90,000 1 mark

- Q11. How might globalisation benefit UK businesses that are focused on growth?
- A. More opportunities to sell UK goods widely around the world
 - B. Provides more competition from overseas companies
 - C. Makes it easier for ethical businesses to find cheap labour
 - D. Harder to create international brands such as Coca-Cola 1 mark
- Q12. Which **one** of the following is a reason a business would need extra finance?
- A. Having made an improved profit this year
 - B. Because sales are growing rapidly
 - C. Because costs have been cut sharply over recent years
 - D. To pay for a new partner to join the business 1 mark
- Q13. Which **one** of the following costs is affected greatly by location close to the market?
- A. Labour costs
 - B. Costs of heating and lighting
 - C. The rate of profit tax
 - D. Property costs 1 mark
- Q14. Which **one** of the following helps explain why 'rogue traders' never disappear?
- A. Because all businesses like to take advantage of customers
 - B. Because product safety can never be guaranteed
 - C. Consumer protection laws may not be strong enough
 - D. Because the media fails to highlight the problem 1 mark
- Q15. Which **one** is the correct way to calculate the average rate of return (ARR)?
- A. Average net profit as a percentage of the sales revenue
 - B. Average annual profit as a percentage of the sum invested
 - C. Total profit as a percentage of the sum invested
 - D. Average annual profit as a percentage of annual total costs 1 mark

Section B

Read the following extract carefully, then answer ALL questions

Text 1. Cadbury expands production at Bournville

Cadbury has announced that Dairy Milk Oreo and Dairy Milk Tiffin chocolate bars will be made at Bournville, Birmingham, for the first time. It marks the first expansion in production at the factory since a £75 million investment to improve productivity levels. Cadbury announced proudly that: 'Bournville is now competing in the Premier League of international factories.'

The Bournville chocolate factory, which dates from 1879, will use fresh British milk to produce some 28 million bars a year of Dairy Milk Oreo. These will be on the shelves in autumn 2017. Cadbury Dairy Milk Tiffin was originally launched in 1937. The product was withdrawn from sale in 1972, brought back in 1985 and withdrawn again in 2003. Bournville will now produce 20,000 Cadbury Dairy Milk Tiffin bars an hour.

The £75m investment at Bournville has created four state-of-the-art new flow production lines to increase productivity. Other products made at Bournville include Cadbury Dairy Milk, Giant Buttons, Wispa, Easter eggs and Cadbury Creme Eggs. The Bournville factory already produces 5.5 million blocks of Cadbury Dairy Milk and over a million Wispa bars every day. Source: Cadbury press release, July 7th 2017

16a) Explain two reasons why higher productivity may benefit Cadbury.

Reason 1 (2)

Reason 2 (2)

16b) Analyse two factors that could boost Cadbury's ability to compete internationally.

1st factor (3)

2nd factor (3)

16c) If bars of Dairy Milk Oreo sell for an average price of £1.20, calculate the yearly revenue Cadbury will receive from the brand. Show your workings. (3)

16d) Analyse whether Cadbury is right to use flow production for its chocolate production at Bournville. In your answer you should consider:

di) The impact on the workforce (3)

dii) The impact on the company's finances (3)

diii) Recommend which of these impacts will be the more important for Cadbury. Give reasons for your answer. (3)

17.

Text 2. Porky Decisions

“Come on, Tim, we’ve simply got to make a decision – organic or 100% pork?” Barlow Farms Ltd had seen sales slip for 14 consecutive months, and action was needed. After 50 years manufacturing sausages made ‘in the traditional way’ (the cheapest possible meat, plus organs, plus rusks, plus fat), Barlow Farms was going to have to make changes. Not to the factory, but to the recipe.

Rebecca, the Marketing Manager, had been pushing for ‘The Organic Norfolk Sausage’ for months. Now, with Tesco and Sainsbury reporting a 50% increase in the sales of organic turkeys in the 2016 Christmas season, the way seemed clear.

Yet Sarge, the Production Manager, was not happy with this plan. He wanted to forget the organic label, and instead go for the best possible sausage Barlow could make. It would have prime pork, herbs and spices – all expensive ingredients. Therefore they would not be able to afford to buy organic supplies – as the word ‘organic’ added at least 25% to the cost. Sarge knew the recipe he wanted, and was sure that it would be good enough to create an outstanding sausage.

Chief Executive Tim Barlow had asked Sarge and Rebecca to come up with three figures: the variable production cost per pack, a suggested selling price per pack, and an estimate of the sales potential. He then turned the data into this Table:

	Rebecca’s Organic	Sarge’s 100% Porker
Selling price (pack)	£2.75	£2.40
Variable costs (pack)	£1.75	£1.70
Gross profit per pack	£1.00	£0.70
Sales potential (million packs a year)	4	5

Tim worked out that the fixed costs of operating either product would be the same, at £2 million a year.

17a) Identify one factor that might affect the sales potential of a brand of sausages. (1)

17b) Explain, giving an example, what is meant by ‘variable costs’. (2)

17ci) Calculate the expected yearly net profit for each of the two products. Show your workings. (6)

17cii) State which product should be launched based purely on the profit calculation. (1)

17d) Calculate the expected net profit margin for Sarge’s sausage. Show your workings. (3)

17e) To produce high quality sausages, Tim plans to introduce a method for ensuring quality in the factory.

i. State **one** disadvantage to a business owner of using:

Quality assurance (1)

Quality control (1)

18a) State one example of a stakeholder group that may be concerned about this information about Citigroup. (1)

18b) Analyse **one** way in which each of these location factors could affect Citigroup's final decision.

1. Costs (3)

2. Proximity to market (3)

18c) Recommend which of these two factors is likely to be the more important in Citigroup's decision. (3)

OCR Business 9-1 GCSE Exam Pack

Marking Schemes and Advice

Please read the marking guidance that follows

An Introduction to marking

The key to successful exam marking is to focus on what's good about an answer – not what's missing. Any reasonable line of thought is worthy of marks, as long as it's relevant to the precise wording of the question set, and/or makes use of the business context. The closer the relevance to the question and the better the use of context, the higher the mark.

For questions carrying 7 or more marks, the 9-1 OCR GCSE uses a level of response approach. This requires markers to decide first on the right level, e.g. L3, and then chose which mark is fairest within that level. Although it fights with teacher instincts, it's especially important to be generous at the top end but meaner at the bottom. So a student with an answer to a 9-mark question that shows good business knowledge, has a clear focus on the question, is set in context and makes appropriate judgements is worth not only Level 3, but the top of Level 3, i.e. full marks. The student with an ill-focused answer rooted in memory rather than thought deserves the bottom of Level 2 (4 out of 9).

Successful candidates are usually those with consistently good marks throughout a paper. They don't write anything marvellous (there's no time!) but never produce anything dismal. On the rare occasions they produce a very well rounded answer, they deserve full marks.

Specifics within the OCR Mark schemes.

To get to Level 3 the candidate needs:

1. Knowledge:

- 'Good knowledge and understanding' (but no more marks than for L2)

2. Application:

- 'Good application of knowledge and understanding of business concepts and issues. Detailed understanding of the scenario' (but no more marks than for L2)

3. Analysis

- Good analysis of business information and/or issues to demonstrate understanding; deconstruction of relevant issues to find connections

4. Evaluation

- Strong evaluation of business information and issues to demonstrate understanding. A judgement is made and conclusions are drawn that are fully justified.

To summarise the above, here is a usable, condensed version of the OCR mark scheme.

	Knowledge	Application	Analysis	Evaluation
Level 3	Good knowledge and understanding	Good application: detailed understanding of the scenario	Good analysis of data; deconstruction of relevant issues to find connections	Strong evaluation of issues. A judgement is made and conclusions are fully justified.
Level 2	Good knowledge and understanding	Good application: detailed understanding of the scenario	Limited: simple statements of cause and effect	Limited evaluation; some attempt to form a conclusion
Level 1	Limited knowledge or understanding of relevant concept(s)	Limited application: but some use of the scenario	Limited: simple statements of cause and effect	None

The above can be used as a generic marking grid for the 7 and 9-mark questions.

Practice Paper Set 1: OCR GCSE Paper 1

For Business 9-1, ANSWERS

Section A

1. D
2. C
3. C
4. A
5. C
6. D
7. B
8. B
9. C
10. A
11. B
12. C
13. C
14. A
15. B

a) State two benefits to a start-up of business planning. (2)

- Should help bring things together (marketing and production, for e.g.)
- Helps when attempting to raise capital

b) Explain the benefit to NDC from growing organically. (2)

- Wade Smith makes a great point, near the end of the text, that 'we just want to keep making more doughnuts and keep opening new shops'. Quite simply, they're enjoying themselves. This is probably because it's fun to invent new flavours – and try them out – and to build a business. For people in their early 20s, opening one extra shop will be a real challenge – requiring managerial rather than entrepreneurial skills. The great thing about

organic growth is that you can grow at your own pace; no need to open that 3rd shop until everything's settled with the second.

c) Explain one problem the Nottingham Doughnut Company may have faced when it started up in 2015. (2)

- The business may have found cash flow a problem in building up from a weekend market stall to a full-time shop; that would place a big drain on cash flow

d) Explain one advantage to the Nottingham Doughnut Company of using market research. (2)

- Will have helped in building this huge product portfolio of 50 flavours; no-one should trial flavours on their customers, who may be put off by the very idea of a Banana Doughnut, for e.g. Best to find out in research that customers don't want it

e) Analyse one stakeholder group that might be unhappy about NDC's business. (3)

- One stakeholder group might be the local community. They may accept that doughnuts make a fine occasional treat, but worry that the lure of 50 flavours may be encouraging too many kids to buy too many doughnuts. There may be a concern related to child obesity and its link with diabetes - especially if NDC has special offers that encourage multi-buying ('1 For £1.25; 3 for £2.25') and therefore excessive consumption

(f) After opening its Derby store, NDC plans to carry on growing by opening new stores.

fi) State one advantage to a business of growing by opening new retail shops. (1)

- A new shop allows you to display your range to all the passers-by, without the need for advertising

fii) State one disadvantage to a business of growing by opening new retail shops. (1)

- The shift to online sales means that perhaps organic growth should come from e-commerce, not shops

fiii) Evaluate whether or not NDC should plan for continued growth by opening new shops. (7)

17a) Identify one item of content in the job role of a:

i. Director (1)

- Setting out the business objectives, for managers to follow

ii. Senior manager (1)

- Making the decisions needed to achieve the business objectives

b) Identify two benefits David Lloyd might gain from recruiting externally. (2)

- New ideas about ways of working
- New ideas about product or service improvement

c) State one method of digital communication a business might use between staff. (1)

- Text, social media or email

d) What percentage of all David Lloyd's employees are female? (3)

Show your workings.

Total employees = 2,374 + 2,902 = 5,276

Female % = $2,902 / 5,276 \times 100 =$

Answer = 55%

e) The data at the end of Text 2 might suggest workplace discrimination at David Lloyd Leisure. Analyse the effect that might have on the business. (3)

- The shareholders of the company seem to think that none of the 55% (female staff) are worth having in the Boardroom. Because of the failure to appoint the brightest of the women, the average quality level among the directors is likely to have been reduced. Without the best brains, the average quality of decision making is being reduced.

f) The Directors of David Lloyd Leisure are wondering whether or not to launch their own low-cost 'DL Gyms' in city centres.

Analyse whether the company should, or should not, launch their own chain of low-cost gyms.

i. Should launch (3)

- The case for doing so is made most strongly by the dramatic growth in the market share of low-cost gyms revealed by the bar chart within Text 2. This growth points to the threat low-cost gyms may pose to David Lloyd (DL), but also to the opportunity they present. DL might be able to run their traditional business (aimed at families) plus DL Gyms (aimed at young adults), with both making good profits.

- It's also important to remember that the David Lloyd brand is a good one, so it might be that 'DL Gyms' can command a slight price premium over other low-cost gyms. People are willing to pay a bit more for the security that comes with an established name.

ii. Should not launch (3)

- On the other hand, it may be that DL has left this a bit too late. Low cost gyms started in the UK in 2008 and have boomed since. By the time DL gets into this market the new low-cost gym chains may have established their brand names too completely to allow a window of opportunity to a newcomer. And the very strength of the DL brand in full-service Health Clubs may put off low-cost gym users (as they may expect DL to be 'overpriced').

g) Recommend whether or not DLL should launch its own chain of low-cost gyms. Give reasons for your answer. (3)

- On balance, it seems riskier to ignore this trend than to go with it. The pace of growth is not slowing down, according to the market share graph. So yes, DLL should launch a limited number of DL Gyms in City Centres, and see how they go. Effectively a test market. If some are successful, it would be worth building on that.

a) Analyse two reasons why Louis may have decided to establish Chokolit as a private limited company. (6)

Reason 1.

He may have been concerned about the risk to himself and family of operating with unlimited liability. If a manufacturing fault led to food poisoning, customers could sue and might win huge compensation. Limited liability restricts the liability to the company

Reason 2.

An ambitious entrepreneur such as Louis wants growth to be rapid. But this puts a huge financial pressure onto any new business. Whereas an unlimited liability firm is only likely to obtain extra finance from family, a private limited company can invite investment from anyone known personally by the proprietor, e.g. a venture capital provider

b) Identify one element of a business plan that might help Chokolit manage its next, growth stage. (1)

- A cash flow forecast

c) Evaluate the problems that may arise as Chokolit continues to grow. (9)

- Having a very young boss is hugely impressive – and makes for a great story – but as the business grows it has to hire new staff. The text mentions a secretary and a projects manager. Louis may be a creative, talented entrepreneur, but leadership skills usually

mature with time. Louis doesn't have the time. And every mistake he makes will be in the spotlight of a business that revolves around him. The problem may be that people are hired, but leave quite quickly as they struggle to accept Louis as their boss – and the faster the business grows, the more new people will be needed – which is likely to make the problem worse

- Another important problem can arise if the business is overly dependent on one or two big retail customers. Waitrose might be buying 40% of all Chokolit's products. Then, if a new Chocolate Products Buyer at Waitrose decides to switch to another quirky brand, heavy investment in Chokolit manufacture may be wasted as sales slump. Growth is rarely a smooth upward path; it's more likely to be an upward sloping roller-coaster
- Between these two, the biggest problems are likely to come from managing people (this is the widespread experience of entrepreneurs). So Louis may need to spend on a crash course on management and leadership skills – to try to prevent what might otherwise be a disappointing way for the business success to turn sour

d) Analyse the importance of these elements of the marketing mix to the early success of Chokolit. (6)

Element 1. Product

Although Chokolit probably succeeded due to its story rather than its product, no-one will keep buying a brand for long unless they enjoy it and remember it. So the product needed to be good enough and memorable enough for Waitrose to buy – and keep buying. This not only helps to keep revenue relatively stable, it may also provide an opportunity to increase the price

Element 2. Place

Gaining distribution for a new product is hugely important and very challenging. There may be a lot of shelf space in a big supermarket, but it's largely filled with well-known branded favourites. So getting stocked by Waitrose was very important – though having gained distribution it's vital to stay there. No retailer wants to see dust gathering on the stock

e) Recommend which of the two elements you believe to have been the more important to the early success of Chocolit. (3)

For the early success, Place was probably the more important. It would have given an injection of revenue and confidence to the Chokolit business. Many UK consumers are very conservative about their chocolate, so it's risky to do anything too adventurous. Better to create an exciting story, brand it well, then sell it in with care – even if the product is no more exciting than Chokolit Dairy Milk

End of Marking: OCR Paper 1 Set 1

Practice Paper Set 1: OCR GCSE Paper 2, for Business 9-1

ANSWERS

Section A

1. A

2. B

3. A

4. C

5. D

6. A

7. A

8. B

9. A

10. C

11. A

12. D

13. D

14. C

15. C

16a) State two benefits to a business of staff with good product knowledge. (2)

- Easier to persuade customers to buy, so revenue rises
- The staff themselves will be more confident and therefore motivated

16b) Explain one important location factor for a business such as *Unruly*. (2)

Marking advice: Award 1 mark for identification of a factor, plus 1 further mark for explaining this factor, up to a total of 2 marks.

- It might be important to work close to other creative and high tech companies – perhaps in London’s Soho or ‘Silicon Roundabout’. This is where the customer companies are most likely to be located – therefore staff can easily meet to discuss projects

16c) Explain one benefit to *Unruly* of careful cash flow forecasting. (2)

Marking advice: Award 1 mark for identification of a benefit, plus 1 further mark for explaining this benefit, up to a total of 2 marks.

- Particularly in its start-up phase cash flow forecasting would have been vital. Staff and suppliers need to be paid on time – but that can only happen if the cash is there (or an overdraft in place). Cash flow forecasting allowed *Unruly* to get through its start-up difficulties

16d) Explain one advantage to *Unruly* of having multinational customers such as Pepsi and Levi's.

Marking advice: Award 1 mark for identification of an advantage, plus 1 further mark for explaining this advantage, up to a total of 2 marks.

- Advertising spending is likely to be much higher than UK-only businesses, giving the *Unruly* the opportunity to charge higher prices because of the higher value of the well done

16e) Analyse one reason why a business such as *Unruly* might face an 'awful' cash position. (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- The nine months referred to in the text were the company's first nine months. It's understandable to have a tough cash position because you have all the start-up costs of buying furniture, computers, equipment etc while it's bound to take some time to persuade clients to try you out – so cash outflows are high while inflows are low

16f) In one new project Sarah has planned, she needs to work out whether profits will be high enough. She estimates that it will take 6 months to get going, and then the monthly customer numbers will range between 8 and 16. The figures are as follows:

Average price to the customer: £6,000

Average variable costs: £2,500

Monthly fixed costs of running the project: £36,000

fi) Calculate the monthly profit if customer numbers are at the minimum level. (1)

$(£6,000 \times 8) - ([£2,500 \times 8] + £36,000) = \textit{minus} £8,000$

fii) Calculate the monthly profit if customer numbers are at the maximum level. (1)

$(£6,000 \times 16) - ([£2,500 \times 16] + £36,000) = \textit{plus} £20,000$

fiii) Evaluate whether Sarah should go ahead with this project. Give reasons for your advice. (7)

- To go ahead, Sarah must be comfortable about two things: that the prospects for getting 16 customers are good, and that even if they get only 8 customers, a monthly loss of £8,000 won't do the business too much harm. As an entrepreneur (and therefore an

optimist) she'd probably focus on the prospects of getting 16 customers, perhaps by carrying out some market research. As long as the findings are encouraging it'll be a worthwhile project from a long-term point of view.

- On the other hand the text says 'it will take 6 months to get going', implying that the losses over the first 6 months will be greater even than the £8,000 a month shown in the above calculations. This short-term financial harm might outweigh the long-term benefit
- In conclusion, Sarah should only go ahead if market research shows promising long-term potential and if the short-term financial pain is not too damaging in terms of Unruly's cash flow.

a) Identify one reason why batch production might be suitable for Fever Tree. (1)

- Fever Tree produces more than 20 different types of mixer, so batches may make more sense than flow production

b) Explain the importance of revenue to a business such as Fever Tree plc. (2)

- Revenue is the value of the sales made per day/month/year. It is what pays for all the costs, hopefully allowing some profit to be left over

c) Explain how Fever Tree might benefit from quality control at its factories. (2)

- A branded producer such as Fever Tree needs a good image to support the brand. Quality control should ensure that no faulty products leave the factory and end up with a consumer. High quality should mean high levels of repeat purchase

di) In 2015 Fever Tree's total costs were £42 million and rose to £67.8 million in 2016. Use the graph in Text 2 to calculate Fever Tree's profit for each year. (3)

Profit = Revenue – Total Costs

2015 Profit = £59.3m - £42m = £17.3m

2016 Profit = £102.2m - £67.8m = £34.4m

dii) Use these figures to calculate Fever Tree's net profit margin for 2015 and for 2016. (3)

Net profit margin = Net profit / Revenue x 100

2015 = £17.3m / £59.3m x 100 = 29.2%

2016 = £34.4m / £102.2m x 100 = 33.7%

diii) Name two types of cost that add together to make 'total costs'. (2)

- Fixed costs
- Variable costs

div) Explain the importance of these profit margin figures to Fever Tree. (2)

- This substantial increase in Fever Tree's profit margins suggests that the business is getting more efficient, and ensures that rising profits will make it easy to finance future growth. Already 56% of sales are overseas; the high profit margins will make it possible to develop overseas sales even more

e) Explain the importance of efficient logistics management for Fever Tree. (2)

- Logistics means organising how resources are moved around – to get them to the right place at the right time. Retail customers may love the Fever Tree brand, but they'll soon get impatient if orders don't arrive as they're supposed to. Inefficiency by Fever Tree would mean empty shelves at Tesco or Sainsbury's – and that's not acceptable to anyone.

fi) State one benefit Fever Tree plc has received from the success of its international branding. (1)

- A huge boost to sales revenue as 56% of 2016 sales were overseas

fii) Evaluate whether globalisation helps the development of a business such as Fever Tree. (7)

- Globalisation helps because it means that consumer tastes are becoming more international (in many ways westernised) as global trade expands. Luckily for Fever Tree, a gin & tonic was largely a UK-only drink in the past, but is now popular from Spain to Vietnam. For what is still quite a young company, Fever Tree has benefitted hugely from its ability to sell product overseas.
- Although Fever Tree has benefitted, other UK companies have suffered from globalisation. Typically they are businesses with relatively weak branding, out-competed by overseas businesses that can either undercut them on production costs and therefore prices (eg steel), or out-competed on the basis of design and quality (eg Apple, BMW).
- Globalisation makes it easier for successful businesses to grow bigger, faster than ever before. Tech or online businesses such as Uber or Amazon have shown this, as have the UK business ASOS, James Dyson and Fever Tree. So yes, globalisation does help the development of a business such as Fever Tree

18a) State one example of business risk shown in Text 3.

(1)

- The risk of being caught. In this case Actavis has been caught attempting to act anti-competitively

18b) Analyse one way in which the actions by Actavis could impact on each of the following:

bi) Customers

(3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- In the UK, the direct customer for Actavis is the NHS, which is already under huge financial pressure. So increasing prices by 80% sucks money out of the NHS, forcing service cuts

somewhere in the system. That, in turn, will affect the end-users – the sick people in need of care. The only possible effect on customers of an unnecessary 80% price rise is harmful

bii) Shareholders

(3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- At the point when shareholders heard of an 80% price rise on an essential drug, many may have quietly cheered. They would know that this would increase hugely the profit being made on the drug, which would boost the company's overall profit and therefore the annual dividends it pays shareholders. For whereas a huge price rise on a chocolate bar might result in a huge fall in sales volume, those who need hydrocortisone tablets had nowhere else to turn

biii) Workers

(3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Those working for Actavis share with shareholders a desire for the business to do well. A profitable company can pay wage increases, afford to promote staff – and has no pressure for cutbacks/redundancies. But some managerial staff may hate to be caught up in the dodgy legality involved in the dealings with rival Concordia.

biv) Recommend which of these three groups would be most affected by the actions of Actavis plc set out in Text 3. Give reasons for your answer.

(3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Those most affected are probably the shareholders. The huge price rises pour more money into their own pockets (at the expense of the NHS and therefore the public at large), but the actions of the CMA might mean the company ends up with a fine that eliminates much of the benefit. Historically, UK courts have been less harsh than American courts, so the Actavis shareholders will be hoping they get off lightly.

18c) Evaluate whether Actavis should make a take-over bid for Concordia.

(7)

- Actavis buying Concordia is an example of a horizontal takeover, in other words a business buys up a direct rival. There are always big questions about the wisdom of takeovers, but in this case it solves a problem caused by the CMA's intervention. If Actavis isn't allowed to pay Concordia to stop it competing with hydrocortisone, a takeover bid is a clever way around the problem. Actavis can take control and simply tell Concordia not to launch their rival product
- But of course there's more to take-over bids than this. Recent research shows that most takeover bids prove a disappointment. They fail to generate the efficiency gains that people expect. So even though Actavis will benefit from eliminating the competitive threat from Concordia, it may suffer in other ways. The combined business may prove too big to manage effectively – causing decision-making to be less successful
- Actavis should think very carefully before buying Concordia, making sure that there are more, long-term benefits from the move than simply eliminating Concordia competition

Practice Paper Set 2: OCR GCSE Paper 1 For Business 9-1, ANSWERS

Section A

1. D

2. B

3. A

4. B

5. D

6. A

7. D

8. C

9. A

10. B

11. C

12. A

13. B

14. C

15. B

16a) State two risks that Charles and Ulrika faced in starting this business. (2)

- That customer number might be below the break-even point
- That bad customer feedback may spread on social media

16b) From the graph (Figure 1), calculate the percentage increase in sales of free-from foods between 2015 and 2016. State the answer to 2 decimal places. (2)

Percentage change is $\text{change} / \text{original} \times 100$

Change is $900 - 772.2 = 127.8$

A-Z Business Training Ltd.

% change is $127.8 / 772.2 \times 100 = +16.55\%$

16c) Explain one benefit a business might receive from carrying out primary market research. (2)

- It might find something insightful about customers that no-one else knows. This might help in developing an innovative new product

16d) Identify two ways in which Charles and Ulrika might segment their market. (2)

- Age
- Gender

16e) Explain one benefit to Charles and Ulrika from using market segmentation in starting up their vegan restaurant. (3)

- By targeting an under-served lifestyle segment, Charles & Ulrika may provide high customer satisfaction that can translate into higher sales, higher prices or perhaps both

16f) Vegan Express has been doing well, but Ulrika thinks they would grow faster if they developed their website to encourage e-commerce ordering.

fi) State one advantage to a business of an improved website. (1)

- Opportunity to attract new customers – especially if it's high on Google rankings

fii) State one disadvantage to a business of focusing on a website. (1)

- A website is only one part of the business. Effective delivery logistics are as important

fiii) Evaluate whether a switch to e-commerce might help Charles and Ulrika to develop their business further. (7)

- The secret to C&U's success is good, innovative food targeted at an underserved niche – the vegans. C&U have done a great job in providing an eating experience that generates high satisfaction ratings. They mustn't think that e-commerce will automatically do the same. OK, if it's just collecting pre-ordered food, that should be fine. But what if it's delivery? They'd have to put in place a system to ensure deliveries are quick, efficient and therefore the food is still fresh and hot. Only if they can put these things into place should they jump to e-commerce. Then a successful switch will give them access to faster growth rates in the e-commerce takeaway market.
- So, if they can do it well they should go ahead. If they haven't the time or money, they should stick with their current, excellent service.

17a) Explain one advantage to a business of using a person specification within the recruitment process. (2)

Marking advice: Award 1 mark for identification of an advantage, plus 1 further mark for explaining this advantage, up to a total of 2 marks.

It sets out the type of person and the skills the business wants (1) Making it easier to select the right person for the job (1)

17b) Identify two actions a business could take to help employee retention. (2)

1. Increase salaries

2. Give more praise

17c) Identify one pricing method that might be used by the Walton Furniture Company. (1)

- Cost-plus

17d) Explain one problem created by the commission system used at the Walton Furniture Company. (3)

- One problem was the disputes raging when two or more staff had dealt with a customer, but all the commission went to the person who concluded the sale. 'Fairness' (or perceived fairness) is an important part of a successful pay system. If people feel cheated they are likely to resist efforts to build a team. In the long run this may damage the organisation, especially if disharmony among staff feeds through to customers.

17e) Analyse one way in which WFC could use each of these methods of motivation.

i) Praise (3)

- Working isn't just about earning money. Full-time staff spend a third of their lives at work, so they want to feel good about it. Praise shows that management notices – and appreciates – good work. This helps staff feel part of the business rather than just a human robot. The clashes between staff at WFC could be reduced if praise made everyone feel better about their jobs

ii) Profit sharing (3)

- This would be a way to switch to a group-based incentive system. Commission for individuals is causing chaos. Profit sharing would put a stop to current bickering over who deserves what. Staff would need to work together to maximise revenue, minimise costs and therefore boost profit

iii) An improved work environment (3)

- The text says nothing about WFC's current physical environment. Staff seem too focused on their bonuses to care. So if Mr and Mrs Vine spent cash on a nice staff room at the moment, staff would hardly notice as they keep on bickering. Only if the reward system changed would there be any point in improving the work environment

iv) Recommend one of these approaches to staff motivation that should work best at WFC. Give reasons for your answer. (3)

- Of the three approaches, praise seems likely to be the best approach. If staff feel more positive about their jobs, perhaps the bonus issues will seem less important. They need to be encouraged to accept some give-and-take in the way bonuses work. Praise might help with team working, which should encourage more compromise

18a) Identify two sources of capital that might help an entrepreneur start up a business. (2)

1. Owner's capital, i.e. savings
2. A bank loan

18b) Identify one item of content in a:

i. Business Plan (1)

- Cash flow forecast

ii. Business objective (1)

- A timescale

18c) Explain one benefit to an entrepreneur of buying this business rather than starting up a fishing business from scratch. (3)

ANS: The most obvious advantages are the boat, the equipment and the connection with a freelance captain, i.e. the business is ready-to-go. Even more important, though, is the 'goodwill', in the form of the local recognition of the *Lady Mary*. Holidaymakers may ask at their hotel about sea fishing possibilities, and the *Lady Mary* is likely to be mentioned because the business has been operating successfully for 15+ years. A brand new fishing business might take quite a while before it gets recommendations by locals. That would force the entrepreneur to spend, perhaps heavily, on advertising and marketing – which could add sharply to operating costs and therefore wipe out the profit.

18d) Evaluate the balance between risk and reward in buying the *Lady Mary*. (9)

- Every business decision involves risk and reward; in this case the biggest problem is the low ceiling for financial reward. An annual sales revenue of £50,000 is unimpressive when you still have to pay for the captain/crew, the ship's running costs and the cost of running the business itself.

- The risks, meanwhile, are the same as with buying any other business. The buyer doesn't know as much about the business as the seller – and may therefore only find afterwards that things are worse than they seem. Perhaps a new competitor is arriving – splitting the (already small) market
- And the captain is freelance, and therefore uncertain. A good offer from someone else might take the captain away, leaving the boat crewless.
- The risks seem to outweigh the rewards

18e) Analyse which pricing method would be best suited to the Lady Mary in future.

Pricing method 1.

(3)

- Item 1 suggests that Lady Mary is nearly-new boat, well established locally, with an expert captain and a 'high level of regular and repeat trade'. On the assumption that no new competition is about to arrive, this means that three pricing methods can be dismissed straight away: loss leader, competitive pricing and penetration pricing. This business can price confidently based on its strong market position. So price skimming would be possible, in other words pricing at a premium to local competitors. (Implicitly, this says to everyone: we're the best, so we're worth paying a bit extra)

Pricing method 2

(3)

- An alternative is 'cost-plus'. This means calculating all the variable and fixed costs per passenger, then adding on the level of profit that seems a fair reward for such a strong business. Cost-plus is the ultimate in confident pricing.

18f) Recommend which pricing method would be best suited to the Lady Mary in future. Give reasons for your answer.

(3)

- The better of the two in this case is cost-plus. There's not much evidence in the text of any direct competition, so Lady Mary pricing can be set without reference to anything/body else. With a modest revenue level, profit margins need to be high, so quite bold cost-plus pricing is needed.

End of Marking: OCR Paper 1 Set 2

Practice Paper Set 2: OCR GCSE Paper 2, for Business 9-1

ANSWERS

Section A

1. B

2. D

3. A

4. D

5. C

6. D

7. C

8. A

9. D

10. B

11. C

12. A

13. B

14. C

15. C

16a) Calculate the percentage increase in cash between 2014 and 2015. (2)

$$£2,862,365 - £1,771,829 = £1,090,536$$

$$£1,090,536/£1,771,829 \times 100 = +61.5\% \text{ (or } +62\%)$$

16b) Analyse two possible causes of the rise in Islabikes' closing cash balance in 2015.

Cause 1 (3)

- A rise in closing cash has to be because net cash flow improved in the 2014/15 year; this could be because rising sales boosted cash inflows by significantly more than rising costs

increased the level of cash outflows. This, in turn, could be because variable costs increased in line with the sales increase, fixed costs remained largely unchanged

Cause 2 (3)

- Or it may be because a slowdown in investment in Islabikes' future led to a reduction in cash outflows. In other words sales and operating costs may have remained little changed from 2014, but a sharp fall in investment spending may have cut a cash outflow that had been significant in the past

16c) Analyse the possible impact on Islabikes if a TV programme revealed that staff were poorly paid and treated at the factory in south east Asia. (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Islabikes has marketed itself successfully to the mummies on Mumsnet – just the kind of social media site where praise can turn to blame instantly. If the treatment of staff is really awful, it may lead to a significant drop in Islabike sales – especially if any competitors have entered the 2-14 bike market lately. A sharp drop in sales could mean Islabikes drops below its break-even point, turning profits into losses.

16d) Analyse whether Islabikes is in a good position to cope if a new competitor enters the UK market for children's bikes. In your answer you should consider:

di) The impact on Islabikes' finances (3)

- The answer seems to be yes, it's in a very strong position. It has made sure that its marketing is cleverly tailored to a niche market in which parents are likely to respond to a bike specially designed for kids, even if it's priced relatively high. And because much of the bike is already manufactured in Asia (probably China), a competitor may struggle to find a cost advantage. This should keep Islabikes profitable (and they already have a comfortable cash cushion)

dii) The impact on its stakeholders (3)

- A key stakeholder is the group of 25-30 people employed in Shropshire – a rural county in which there may be few substitutes for these manufacturing jobs. Accordingly staff may feel hugely reliant on the Isla jobs. The arrival of a new competitor would worry the staff, but it should be emphasised that the market positioning, the backing of Mumsnet and the financial cushion make it seem unlikely that redundancies are looming. Shareholders such as Isla may find it tougher, as heavier competition will surely mean lower profits.

diii) Recommend which impact of competition is the most likely to affect Islabikes. Give reasons for your answer. (3)

- The cash cushion seems likely to protect the business from any serious harm to its finances, so even though they should be fine, it's probably the workforce who will be affected most – even if only psychologically. Most people want their working life to be a source of

stability and predictability – so the arrival of a competitor will be a concern. And however good an employer Isla has been, she has every right to protect her business from competition, even if it means cutting the wage bill. The workforce are the stakeholders with something to worry (a bit) about

17a) State one difference between sales revenue and profit. (1)

- Revenue ignores costs; profit takes them into account

17b) From Text 2a, calculate the net profit Lumo should make in the coming year. (2)

Revenue: £400,000 – (£200,000* + £120,000) = £80,000

*Half the revenue

17c) Explain one reason why Bairner might be worried about financing further growth using bank loans. (2)

Marking advice: Award 1 mark for identification of a reason, plus 1 further mark for explaining this reason, up to a total of 2 marks.

- Might be worried about the strain on cash flow caused by regular monthly interest charges, plus repaying the capital

17d) Explain one problem Lumo may face in attempting to ‘succeed overseas as well’. (2)

Marking advice: Award 1 mark for identification of a problem, plus 1 further mark for explaining this problem, up to a total of 2 marks.

This product requires strong understanding of local tastes in clothing. Doug understands London/UK clothes buyers but not necessarily ones abroad. So there’s a risk that demand overseas will never be as impressive as demand at home.

17e) Bairner is considering whether Lumo should boost its sales by opening more cycling shops in towns, instead of relying on e-commerce.

ei. State one disadvantage of growing by opening retail shops. (1)

- Quite high set-up costs plus the fixed cost of rent, rates and salaries

eii. State one disadvantage of relying on e-commerce only. (1)

- Seeing and feeling the garments may make people much more likely to buy

eiii. Evaluate whether Lumo should open retail shops in addition to e-commerce sales. (7)

- The case for Lumo opening shops is a thin one. Yes, get distribution through bike shops such as Halfords or perhaps department store chains; then customers can see, feel and try

on the clothes. But operating your own stores means having to fund huge overhead (fixed) costs just to run them. How many customers will there be on a Monday or Tuesday – or when it's raining - or during the winter?

- The only case for Lumo having its own shops is to provide a showcase for the merchandise. In other words people may come and try, but may buy online. The value of having your own shops is that you present them as you wish – and sell them through highly-trained sales staff who help customers understand why a £200 cycling jacket is 'worth it'
- In conclusion there may be a case for two or three shops in major cities, especially if there's an area where bike shops have already clustered (and therefore customers visit). These would be showrooms as much as shops, and may make a small operating loss – yet still help with the overall profitability of the business

17f) Doug Bairney has made some forecasts on opening his first *Lumo* shop. Using the information below, calculate the average rate of return (ARR). You are advised to show your formula and workings. (4)

- Formula: average annual profit / sum invested x 100
- Total profit: (£1,800 x 4) minus £4,000 = £3,200
- Average annual profit = £3,200 / 4 = £800 a year
- ARR = £800/£4,000 x 100 = 20%

18a) State one example of good post-sales service that could be provided by a retailer. (1)

Helping a customer with a problem, e.g. the ticket bought from Vibe proves to have been a forgery – quick, helpful refund

18b) Explain one way in which Vibe has benefited from the use of social media. (2)

Marking advice: Award up to 2 marks for linked points outlining a benefit for *Vibe*. In other words the knowledge and the application must be linked. Award a maximum of 1 mark if points are not linked.

ANS: Getting £600,000 of online investment from crowdfunding; without that boost from social media the business may never have got started

18c) Analyse one way each of these stakeholders is benefitting from the service *Vibe* is providing. (3)

1. Customers (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

ANS: Vibe is offering its customers a solution to the economic and moral dilemma involved in dealing with touts. Vibe offers an exchange in which supply and demand are not allowed to create absurdities such as people having to pay £1,000 to get to an Adele concert. So Vibe is offering

greater fairness and a way to avoid making a tout rich(er). This seems like a 100% win for customers.

2. Shareholders

(3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

But Vibe may prove in the long term to be too 'nice' to survive. It may struggle to make the level of ongoing profit that pays the staff, pays the shareholders and still has enough left to invest in updated computers and other equipment. So the benefit to customers may be balanced by the weak position of shareholders.

18d) Recommend which of these groups is likely to benefit the most from the Vibe service. (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- There is no doubt about the winner currently: the customer. Unfortunately if Vibe can't make some profit it won't be around for long, which would restrict the customer benefit. So Luke has to think hard about how to make the site profitable, only then can he have long-term success in getting what he wants: concert tickets to concert-lovers at the 'right' price

18e) To provide some income, Vibe charges a fee of 5% on every ticket purchase made through the website. Luke has forecast the following figures for the coming month:

Number of ticket purchases: 2,000

Average ticket price: £40

Variable cost per ticket purchase: £1

Monthly fixed costs: £2,200

i) Calculate Vibe's revenue for the coming month. (2)

Luke's revenue is 5% of £40 = £2 x 2,000 tickets = £4,000

ii) Calculate the profit or loss for the coming month. (2)

- Revenue is £4,000
- Minus variable costs of £1 x 2,000 plus £2,200 of fixed costs = £4,200
- So the net profit is *minus* £200 a month.

To develop the business further, Luke is considering two options: Offering extra services, such as stretched Limos to take people to and from the concerts; or write a full business plan to raise extra finance from outside shareholders.

18g) Evaluate which one of these two options Luke should choose. (9)

- Option 1 looks a good thought, given that the fundamental business seems unprofitable. But if he could build value-added services onto the framework of an honest ticket re-selling

business, he might be on to a winner. Many people travel a long way to go to a concert, so hotel bookings might also be a realistic part of a service offering. As it stands, Luke has a socially useful business that will not be able to survive long because it's unprofitable. Only if he can find a way to achieve profit will the business be sustainable.

- On the other hand it could be said that Luke will be taking himself into highly competitive areas about which he knows little or nothing. So there are serious risks in straying beyond the core ticket business. It might be better if a more realistic fee was charged, such as 8% of the ticket price rather than 5%. This would add to the net income received by Vibe without hitting the customer's pocket too badly.
- On balance, offering extra services seems the better bet as it's ensuring that Vibe continues to offer fantastic value to customers, but taking the opportunity to offer more services and thereby make a profit. It seems a win-win for Vibe and its customers.

End of Marking: OCR Paper 2 Set 2

Practice Paper Set 3: OCR GCSE Paper 1

For Business 9-1, ANSWERS

Section A

1. D

2. C

3. B

4. A

5. C

6. A

7. B

8. D

9. C

10. A

11. D

12. A

13. D

14. D

15. C

16a) State two documents a job applicant may have to complete to have a chance of getting a job at the nursery. (2)

- Application form
- C.V.

16b) Explain how the nursery's start-up may have been helped by drawing up a business plan. (2)

- A business plan would show the financials, e.g. the total cash outflow affordable given the start-up capital plus the forecast cash inflows. This may be why Carly and Adele did all the building work themselves

16c) Explain how the nursery might benefit from setting out clear job roles for its supervisors. (2)

- The staff numbers trebled between October 2016 and June 2017 (1) which might make it hard for staff to be sure of the limits of their own job – and who supervises them (1)

16d) Identify one benefit to a new business of carrying out market research. (1)

- Helps identify what motivates customers to purchase

16e) Analyse how Adele and Carly might motivate staff towards the same level of hard work that they put into the job. (3)

Marking advice: Focus on application to context and on the candidate's ability to build arguments into a logical chain.

- Hard work is most likely to stem from a passion for the project, so it's important to recruit staff who are real fans of organic foods/lifestyle – especially in connection with kids. So young parents whose kids have just started school might be ideal employees. Their enthusiasm for an 'organic nursery' should make them work hard, but also show through to the kids and parents, i.e. their job satisfaction turning into customer satisfaction. All these factors will, in turn, keep staff retention levels high
- To build on this non-financial approach to staff motivation it will be important to manage staff in a friendly, inclusive way – building on employees' sense of participation in the business. Unfortunately, in a kids' nursery it will be difficult to pass much responsibility on to junior staff – as careful monitoring and control of staff is a key factor in a modern nursery.

16f) The Enchanted Day Nursery is operating as a partnership. Analyse the benefits to Adele and Carly of turning the business into a private limited company. (3)

Marking advice: Focus on application to context and on the candidate's ability to build arguments into a logical chain.

- The main benefit is to minimise the personal risks involved in running their business. At the moment they have unlimited liability; this is important not just for directly financial reasons but also if a disaster led to customers suing the business. Becoming a private limited company means only the company would be sued, so Adele and Carly have no direct personal liabilities. It's also important for them to realise that there are financial risks involved, even for a business that is hoping for a £210,000 profit in 2018. The profit figure will only prove true based on a series of assumptions; a direct imitator setting up next door might wreck the finances overnight.

Some local parents have asked for a lower-priced, non-organic option at the nursery because ‘at the moment we can’t afford your prices’.

16g) Evaluate whether the company should, or should not, offer a lower-priced, non-organic option. (7)

- The case for saying no is simple: organic is not only a key point of differentiation = marking ‘Enchanted’ out from rivals – it is also the vision that’s guided the entrepreneurs. In modern jargon ‘it’s in the business’s DNA – and the glue that holds the business together. This is likely to have affected staff and pupil recruitment – and probably helps in creating unity around the organic ethos
- On the other hand you could argue that Adele and Carly – having established the organic ethos – could now have the confidence to go beyond organic. Surely allowing less wealthy kids into the nursery is as desirable socially as an organic/environmental approach
- In my view, the ethics of wealth/poverty outweigh those of green/non-green, so it would be good to see Adele and Carly change their pricing & admissions policy

17a) Identify two types of business ownership that have unlimited liability. (2)

1. sole trader
2. partnership

17b) Identify two business objectives Claire Connelly might have in mind when starting her business. (2)

1. Providing a service
2. Profit

17c) Explain one way in which Claire’s use of market research will have reduced the risks in opening her ice cream business. (2)

Claire’s use of secondary research was restricted to Lusciardi’s 600+ reviews on Tripadvisor. This limits her data to Tripadvisor users, who may have a relatively old profile. But it showed her no obvious weaknesses at Lusciardi, which probably helped her decide to locate nearby. That, in turn, may have reduced two risks: the risk of choosing a product range the customer rejects or ignores, plus the risk in choosing the wrong location.

17d) Analyse one way in which Claire could use each of these marketing mix factors in starting up Connelly’s Soft Serve. (3)

1. Price.

- Well established though Fuscuardi's is, it may be that people would be willing to pay a little more for the Connelly Soft Serve experience (with all its dipping options). A skimming approach of 50p more than Fuscuardi's might help to establish Connelly's quality image

2. Promotion (3)

- Because ice cream fans are drawn to Fuscuardi's, promotion will largely revolve around the Connelly shop opposite. A big 3D ice cream outside would attract attention, and somewhere in the window a banner should say 'Up to 2 dipping options free with each ice cream'. Claire must make the best promotional use of her price ice cream location

3. Place (3)

- As we know, Claire has chosen to be head-on with Fuscuardi's. This will succeed if her ice cream offer is good enough, and the pricing works. In other words this is a classic case of the need for an integrated marketing mix: the right product at the right price in the right place – promoted the right way.

17e) Recommend which one of these three factors is likely to prove the most important for Claire. Give reasons for your answer. (3)

- As implied above, it's hard to pick out one option as the most important. But if one has to be chosen, it would be the product (meaning not just the ice cream but also the way it's served). People have got to love the quality and the dram of the product and its presentation. Then word will spread and people will come.

17f) Evaluate the risks involved for Claire in setting up an ice cream business in direct competition with Fuscuardi. (7)

- The risks are significant. The biggest may be seasonal. In the summer, day trippers will arrive and make a simple choice of Fuscuardi's or Connelly's – probably with no prior knowledge. But in the off-season the ice-cream eaters will be locals who may enjoy an occasional Soft Srve, but generally show loyalty to the local institution: Fuscuardi's, with its 5-yr history. So Claire may have a busy, profitable summer followed by a long, hard, negative cash-flow winter. That's a serious risk.
- On the other hand risks are OK if rewards are potentially higher. It could be so hugely profitable in the summer that Claire can build up her cash balances to breeze through the winter. Anyone who's seen a £1.99 Magnum sold in a 4-pack for £1.60 at Iceland knows that ice cream gross profit margins are massive. This is probably a risk worth taking.

18a) Identify two human resource needs for a new business. (2)

1. Expert recruitment
2. High quality, relevant, training

18b) Using an example from the text, explain one risk that Reena and Danny face in starting this business. (3)

- In the text it says they 'should easily sell their total output of 300 machines a month', but no evidence is provided as to why they think that way. If sales slip below 300, there's a serious risk that the business may fail to make enough profit to justify the investment. In other words the average rate of return may turn out, in fact, to be less than zero %.

18c) Analyse two benefits to Reena and Danny of making a realistic estimate of the length of the 3-in-1's product life cycle. (3)

Benefit 1. (3)

If sales prove to be around 300 machines a month, there may be monthly profits to be made. But if the product life cycle proves to be short (say, ten months) the monthly profits may not add up to enough to cover the initial investment. If that happens it may be impossible to pay back the bank loans used to finance the start-up. It's no wonder the bank manager is concerned

Benefit 2. (3)

It's also important to know if the life cycle might prove long enough to influence the marketing planning. If there's a long potential life, it might be worth trying to raise extra finance to pay for long-term, image-building advertising, so that the 'Washerman' brand becomes established as the original 3-in-1 machine.

18d) Evaluate whether Reena and Danny should sell the 3 in 1 idea to an established company, or should carry on to launch it themselves. (9)

- The case for selling the idea (perhaps earning a royalty commission to profit from any sales success) rests mainly with their lack of business experience. The text makes it sound as if they are remarkably clever, ambitious people – but there's nothing about business experience. So it's reasonable to assume they have little or none. And designing a brilliant machine is (almost) the easy bit. To do it themselves they have to become expert at production management, human resources, marketing and finance. It's a huge ask. Failings on any one of these areas could mean the business fails.
- If they decided to launch it themselves, they would need to appoint a really experienced production manager to help them turn an idea into 300 machines a month. That person could probably cover the human resources area for now. That would still leave Danny and Reena with challenges regarding marketing and finance – but they can perhaps cope. Certainly one could see them being creative and hard-working at the marketing aspects of the business – from creating advertising to visiting department stores to try to obtain distribution. In the short-term the biggest challenge is likely to be cash flow management – but if they can get on top of this they should be fine.
- Overall, though, the challenges seem so huge that it seems wisest to sell the 3-in-1 idea – as long as a company is willing to offer a serious deal that enables the couple to get a proper profit from their inventiveness and hard work

End of Questions, Set 3, Paper 1

Practice Paper Set 3: OCR GCSE Paper 2, for Business 9-1

ANSWERS

Section A

1. B

2. D

3. C

4. A

5. D

6. C

7. A

8. B

9. D

10. C

11. A

12. B

13. D

14. C

15. B

16a) Explain two reasons why higher productivity may benefit Cadbury. (4)

Marking advice: Award 1 mark for identification of a reason, plus 1 further mark for explaining this reason, up to a total of 2 marks.

- Higher efficiency lowers labour cost per unit (1), allowing profits to rise (1)
- Can produce more products with the same workforce (1) allowing Cadbury to introduce two new products to Bournville

16b) Analyse two factors that could boost Cadbury's ability to compete internationally. (6)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Higher productivity makes costs per unit fall, so it's easier to compete with countries where wage rates are lower, e.g. Poland
- A lower value of the £. If the £ falls against the Euro, for example, UK exports can be sold more cheaply. This increased competitiveness helps UK production levels to rise, i.e. more Cadbury chocolate production will take place in the UK

16c) If bars of Dairy Milk Oreo sell for an average price of £1.20, calculate the yearly revenue Cadbury will receive from the brand. Show your workings. (3)

- Revenue = Quantity x Price (1)
- = 28 million x £1.20 (1)
- = £33.6 million (1) Full marks for £33.6m, even if no workings

16d) Analyse whether Cadbury is right to use flow production for its chocolate production at Bournville. In your answer you should consider:

di) The impact on the workforce (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Flow production implies a high degree of automation which means fewer jobs and perhaps redundancies. It also tends to mean highly repetitive jobs for those that remain. So it's wholly negative for the workforce

dii) The impact on the company's finances (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- The impact on Cadbury finances could be very favourable. Lower labour costs per unit and a lower staffing level could mean higher gross and net profit margins. This would enable Cadbury to build up its cash balances, strengthening the business

diii) Recommend which of these impacts will be the more important for Cadbury. Give reasons for your answer. (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Cadbury needs a motivated, committed workforce that feels part of the business. This is hard to achieve with automated production. So there's a risk that staff care less about

quality because they don't feel attached to the business any more. So careful handling of workforce automation is the most important issue for the business

17a) Identify one factor that might affect the sales potential of a brand of sausages. (1)

- The taste, i.e. whether people enjoy – and keep buying

17b) Explain, giving an example, what is meant by 'variable costs'. (2)

- Variable costs change in direct proportion to changes in output
- e.g. raw materials

17ci) Calculate the expected yearly net profit for each of the two products. Show your workings. (6)

Net profit = Revenue – (Fixed + Variable) costs

Reb Organic Revenue = £2.75 x 4 million = £11 million

Reb Organic costs = (£2m + [£1.75 x 4m]) = £9 million

Reb Organic profit = £2 million a year

Sarge's Porker revenue = £2.40 x 5 million = £12 million

Sarge's total costs = (£2 million + [£1.70 x 5m]) = £10.5million

Sarge's profit = £1.5 million

17cii) Should launch Rebecca's Organic

17d) Calculate the expected net profit margin for Sarge's sausage. Show your workings. (3)

Net profit is £1.5 million

Sales revenue is £12m

Net margin = £1.5m / £12m x 100 = 12.5%

17e) To produce high quality sausages, Tim plans to introduce a method for ensuring quality in the factory.

i. State one disadvantage to a business owner of using:

Quality assurance (1)

- Tends to be a box-ticking exercise: doesn't help achieve high quality (just avoids defects)

Quality control (1)

- Only checks quality at the end of the production line, so can waste time and money if the defect occurred early in the production process

17eii) Evaluate whether Tim should introduce quality assurance or quality control in his sausage factory. (7)

- Of the two, quality control can be the more effective. It is based on a team of quality control inspectors who develop expertise regarding quality and are in a good position to spot things that are going wrong. Although quality control takes place at the end of the line, a good inspector knows where the problem occurred and can make sure that shopfloor staff tackle the problems. So it can be used for prevention as well as cure.
- On the other hand some people would worry that the focus on the end-of-the-line inspection could allow costly wastage to develop along the production line (but only discovered, too late, when it gets to the inspection bay)
- As mentioned earlier, the key is to communicate effectively – perhaps with an inspection system in which all staff feel welcome to introduce their own ideas or concerns.

18a) State one example of a stakeholder group that may be concerned about this information about Citigroup. (1)

- UK based employees
- The UK government

18b) Analyse **one** way in which each of these location factors could affect Citigroup's final decision.

1. Costs (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- A building to house thousands of staff in a City centre will have colossal property costs, either in purchasing the freehold or in annual rents. Rents vary dramatically between different cities so this has to be a factor. Salary costs also vary city by city, so there are significant cost considerations involved. It's quite possible that the difference between the highest and lowest cost venues could be measured in the hundreds (certainly the tens) of €millions a year

2. Proximity to market (3)

Marking advice: Focus on application to context and on the candidate's ability to 'deconstruct' (break down) their arguments before building them into a logical chain.

- Often this is a crucial factor, especially in a service business such as banking – where closeness to trading centres (such as London) has always been important. In this case, though, the operation will be the bank's European headquarters, making it far less important to be close to the market. The headquarters will probably deal mainly with Citibank staff at other locations (e.g. America) rather than customers.

18c) Recommend which of these two factors is likely to be the more important in Citigroup's decision. (3)

- In this case it seems clear-cut that the cost factor should be more important than proximity to market. Indeed the text makes it seem that neither of these factors is as important as the liveability of the city – good transport, schools and so on. Meaning that the ability to recruit and retain good staff is the Citibank priority

18d) Explain one ethical consideration for Citigroup when deciding to switch its headquarters from the UK to elsewhere in Europe. (2)

Marking advice: Award 1 mark for identification of a consideration, plus 1 further mark for explaining this consideration, up to a total of 2 marks.

- Citigroup might consider the value to the local area ('society') of the decision it makes. Italy and Spain have had high unemployment since the 2009 financial crisis; both countries would benefit hugely from thousands of new, highly-paid jobs

18e) Evaluate the possible impact on UK businesses and the UK economic climate of Citigroup moving its headquarters away from the UK. (9)

- The UK is a wealthy country with a workforce of 32 million people. Citigroup's 9,000 represent 0.03% of that figure. So it would be an exaggeration to suggest that UK businesses are going to be damaged by this exit. More worrying, though, is if it sets an example that others follow. Why would any bank have its HQ outside the EU 27, when it gains advantages from being inside? If dozens of banks make significant changes, that could become important
- The simple logic is that every high-salaried, banker job is worth a lot to the host economy. Banker spending on houses, Porsches and champagne (and, of course, many more ordinary things) is worth jobs for others in bars or showrooms. And there's a sense in which no economy is static – things are either moving up or down. Thousands of jobs disappearing to Dublin or Rome would tend to make other UK firms more pessimistic about their future – and therefore cut back on investment spending
- So, in isolation the Citibank decision is not that serious. The problem comes if it is one among many similar decisions by rival banks – or if the decision itself sparks off similar decisions by others. UK businesses and the UK population have to hope that it's an isolated case.

End of Pack