

# EXAMINATION PRACTICE ANSWERS

## Topic Area 1

1. B – Confidence. [1]
2. D – Improved personal relationships. [1]
3. Personal relationships with family/friends/spouse, [1] financial wellbeing, [1] personal well-being/health, [1] work-life balance. [1]
4. An entrepreneur will need to negotiate the best deals for raw materials and stock with their suppliers. [1] They will need to be able to negotiate to recruit good potential employees to ensure that both parties feel happy with any agreement. [1] Negotiation with resellers/banks/legal contracts to ensure the best outcomes. [1] Negotiate the sale of the business. [1]
5. (a) To help others/to make a difference. [1] Self-satisfaction of helping/being a respected figure in the community. [1] Do not allow independence/financial return as he may already have that through other businesses. [1]  
 (b) David already runs businesses/may already be busy [1] so another business may require even more of his spare time and attention. [1] A new business is likely to require a lot of hours to set up [1] which will come at the cost of his social life or time spent on other enterprises. [1]  
 (c) David may have to pay for his website upfront even though he may not have had a single sale. [1] This means that he may make a financial loss. [1]

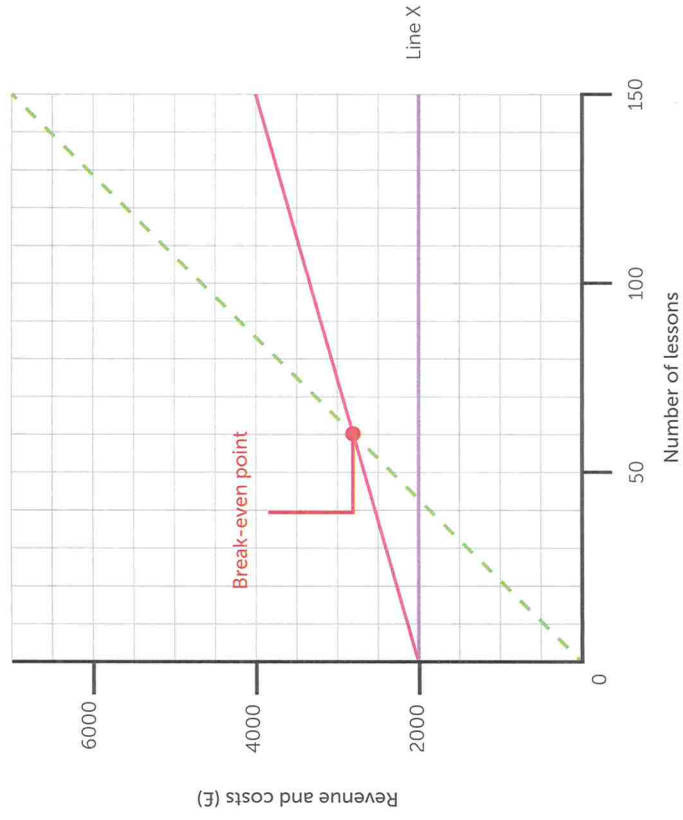
## Topic Area 2

1. B – Find out what customers want. [1]
2. B – Qualitative data [1]
3. A – Generic information which may not apply to your business. [1]
4. (a) (i) It is usually cheaper than primary research. [1] It can be less time consuming because information is more easily found. [1]  
 (ii) The information may be out of date. [1] The information gathered may not be specific or relevant to the business. [1]  
 (b) If the business has unreliable data, then they may offer a service that isn't wanted. [1] This could be because they have not surveyed a representative sample of their target market. [1] This could mean a lot of money is wasted in designing the wrong pet grooming service. [1] causing the business to have cash flow problems. [1]  
 (c) Social media could be used [1] so that customers could post reviews. [1] Surveys could be delivered in person or by email [1] which could gather responses to specific questions. [1] Contact forms could be made available on a website [1] for customers to email their thoughts. [1]
5. Marketing is more efficient / less expensive. [1] because the market is divided up into smaller segments to focus on / which makes limited budgets go further. [1] The best way to reach customers is clearer. [1] because each segment will be based on / have similar customer characteristics. [1] Sales may increase. [1] because customers feel that their needs are more closely met / are more likely to become loyal / make repeat purchases. [1] Overall market share may increase. [1] because sales increase within each of several smaller segments / which decreases the risk of failure. [1]

## 54 ClearRevise

## Topic Area 3

1. A – Advertising. [1]
2. D – A cost that varies with the level of output. [1]
3. C – Loss. [1]
4. Fixed costs = £12,500  
 Variable costs = £2.00 x 5,000 = £10,000  
 Total costs = Fixed costs + variable costs = £12,500 + £10,000 = £22,500. [2]
5. A business will need cash to pay its employees/suppliers. [1] Without paying them, they would very quickly stop working for / supplying the business. As a result, the business would not be able to produce goods or provide a service. [1] [2]
6. (a) Fixed costs. [1]



- (b) (i) As given in green. [1]  
 (ii) As shown above. [1]
- (c) Break-even =  $2000 / (40 - 15)$   
 $= 2000 / 25$   
 $= 80$  lessons [2]
- (d)  $125 = 2000 / (\text{selling price} - 15)$   
 Selling price - 15 =  $2000 / 125$   
 Selling price - 15 = 16  
 Selling price =  $16 + 15$   
 Selling price to break even = £31 [2]
7. Using cheaper raw materials in production of the product [1] will mean that variable costs per unit are lower. [1] This increases the difference between the selling price and the cost of making the product [1]. This will lower the amount needed to be sold to break even. [1]  
 A business can reduce its break even by increasing the selling price [1]. Therefore, the difference between price and variable costs will be greater [1], meaning they need to sell fewer products or services to cover the fixed costs [1]. [3]

## Topic Area 4

1. C – Profit. [1]
2. B – Loyalty scheme. [1]
3. C – Significant increase in sales. [1]
4. C – Public relations strategies. [1]
5. B – Cinema. [1]
6. (a) Maturity. [1]  
(b) The business can start a new advertising campaign [1] to increase sales through raised awareness [1] or to attract new customers. [1]

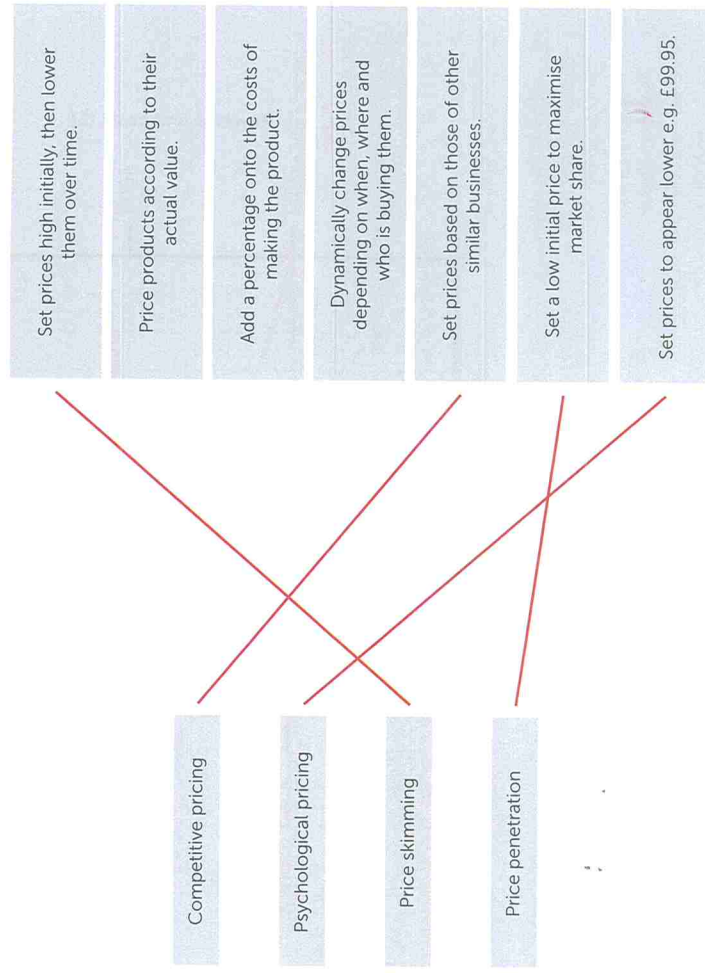
They could decrease the price of the product [1] since the development costs are likely to have been recovered [1] which may encourage more sales from those who previously could not afford the tools or from a new target market on lower incomes. [1]

A new target market [1] could be sought to sell the tools in which would create a new set of potential customers. [1] This would increase sales again in that region and help to balance a decline of sales at times in multiple regions. [1] New packaging [1] could enhance the appeal of an old product [1] to increase sales with a new audience.

The packaging could also be cheaper to produce [1] meaning that the company could lower costs as well. [1]

7. [3]

[4]



8. (a) They will be able to reach more of their target market [1] which may increase sales for Jasmine and Gary. [1] People who do not go to / live near the store can access [1] and buy products / can make purchases. [1] An ecommerce site may increase brand awareness and exposure for the game shop [1] which may attract more customers. [1] [2]
- (b) It is important because a business may have a similar product to its rivals [1]. If they charged a much higher price, they may not receive many sales which could lead to the business not selling enough products to breakeven [1]. [2]
- (c) Initial and ongoing website development and maintenance costs can be high. [1] Potentially high infrastructure costs of warehousing, distribution and dealing with returns. [1] Security and fraud associated with online transaction systems can cost a business heavily [1] if they are not protected against it using the latest security systems. Advertising costs can be high with an online only store as there is no high street store front to generate awareness. [1] It is difficult to build trust with customers online without a human face-to-face connection. [1] [2]

9. This type of question will be marked using a Levels Based Marks Scheme. See page 59 for details.

### Indicative content:

#### Social media

#### Advantages:

- Wide reach
  - Can target specific groups, e.g. people of driving age.
  - Can use animations and video to draw attention to the adverts.
  - Can easily be updated and amended according to response.
- #### Disadvantages:
- Adverts may get lost amongst millions of other posts online.
  - Needs constant updates and planning to create an ongoing campaign.
  - People may respond negatively to the posts / post negative comments.

#### Radio

#### Advantages:

- Affordable.
- Wide reaching audience.
- Can use jingles and specific sounds to catch attention.
- Can time the adverts to appeal to listeners/drivers likely to be in their cars at certain times of day, e.g. rush hour.

#### Disadvantages:

- No visual appeal.
- Limited attention from listeners.
- More expensive than social media.

#### Justification

Accept either method as suitable depending on the justification. This may be based on the relative merits of each method and the value for money for the business.

#### Example response:

Social media can be used to include 'before and after' pictures of successful repairs so that customers can see the results. Radio could be used to create an ongoing campaign which becomes recognised and is useful to target drivers whilst they are passively listening. A social media campaign may however, require more time to plan and post ongoing adverts to maintain the campaign which would take more time from the business. A radio advert would take time to plan and record, but then it is done. However, the costs of creating a radio advert may be much higher.

I would recommend that radio be used to attract new customers as listeners would likely be car owners if the advert is played during peak traffic hours and would not require any more time invested after the advert has been produced. [8]

## Topic Area 5

1. C – Private limited company. [1]
2. A – Can keep all of the profits. [1]
3. A – Formal application forms are not necessary. [1]
4. The business owner(s) have personal responsibility [1] to pay all of the debts of the business should it have to close. [1]  
This may mean selling personal assets to cover the costs. [1]

### 5. Indicative content:

The brand name is already established [1] so will attract sales from day one of trading [1] as customers will be familiar with the brand / have established trust in the brand. [1]  
The franchisor will be able to provide access to proven products and processes [1] which will make business more efficient. [1]  
This will save Polly time / from making mistakes experimenting with other options. [1]  
Training will be provided [1] to give the franchisee the best chance of success. [1] so Polly will feel supported and less on her own. [1]  
Marketing and promotion will be managed centrally [1] which saves having to pay for this directly [1] and frees up the time for Polly to concentrate on other parts of the business. [1]

6. (a) This type of question will be marked using a Levels Based Marks Scheme. See **page 59** for details. [6]

### Indicative content:

Angel investment often comes with advice and support, (✓) which I can use to help direct the business more effectively. (✓) This will help avoid common mistakes. (✓) There is no monthly repayment to be made (✓) which will help the cash flow of the business / not increase the outgoings. (✓) This will provide more cash to be spent on other projects that may help the business. (✓) Whilst there is no interest to pay on angel investment, I would have to give away a percentage share of the business. (✓)

A loan would avoid needing to give up any share of the business (✓) but would incur and monthly interest repayment until the loan is repaid in full. I would need to make the repayments each month otherwise the bank may take possession of assets to the value of the original loan. (✓)

Overall, I would recommend a business angel investor as they are likely to provide help and be motivated to support me in making the business a success as a shareholder. (✓) They would also help share some of the decision making which would be reassuring and less lonely. (✓)

- (b) Two from: Family and friends, [1] crowdfunding [1] or grants [1]. [2]

7. An accountant is professionally qualified to give advice which can be trusted. [1] They will treat information about the business finances as confidential which would avoid business secrets being made public. [1] The advice will also be up to date which means the business will comply with the latest government changes. [1] Even though their fees may be expensive, they may make greater savings in the accounts and avoid any potential fines or costly investigations. [1]

The advice is expensive so the business will need to have sufficient earnings available to cover their costs. [1]  
They may not understand the nature of the industry the business operates in so their advice may not be perfectly suitable / applicable for this business. [1]

# LEVELS BASED MARK SCHEME FOR EXTENDED RESPONSE QUESTIONS

Questions that require extended writing use mark bands. The whole answer will be marked together to determine which mark band it fits into and which mark should be awarded within the mark band. The levels of response each describe the top of the band.

Level	Mark band	Descriptor
Level 3	7–8 marks	A thorough discussion which: <ul style="list-style-type: none"> <li>• shows clear analysis of advantages and disadvantages of both options</li> <li>• makes a justified decision, using appropriate context</li> <li>• consistently uses appropriate terminology</li> <li>• shows detailed understanding</li> </ul>
Level 2	4–6 marks	An adequate discussion which: <ul style="list-style-type: none"> <li>• shows sound analysis of an advantage and a disadvantage of both options</li> <li>• makes limited use of appropriate context</li> <li>• uses some appropriate terminology</li> <li>• shows sound understanding</li> </ul>
Level 1	1–3 marks	A basic discussion which: <ul style="list-style-type: none"> <li>• shows limited analysis of an advantage or a disadvantage of an option</li> <li>• makes limited use of appropriate context</li> <li>• makes limited or no use of appropriate terminology</li> <li>• shows limited understanding</li> </ul>

Level 0 0 marks Response is missing or not worthy of credit.