

R064

Practise Questions Booklet
Mark scheme

Section A

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

17	D
18	B
19	B
20	C
21	C
22	C
23	B
24	D
25	C
26	D
27	A
28	C
29	B
30	B
31	C
32	C

33	C
34	A
35	B
36	C
37	C
38	B
39	A
40	B
41	A
42	C
43	B
44	B
45	C
46	C
47	A
48	B

Section B

Q49

- the business objectives
- business strategies
- sales plan
- marketing plan
- financial forecasts

Section B

Q50

- to clarify a business idea to others
- to measure progress towards goals
- to help manage cash flow
- to help identify potential problems

Example responses

A business plan can help to identify in advance problems for Proctor's Supplies **(1)**, such as costs being higher than were expected on the plan, leading to less profit than originally expected. **(1)**

Section B

Q51

Benefits may include:

- Trade under an established brand name which customers will immediately recognise
- Receive operational advice from the franchisor, e.g. business and marketing support
- May have opportunity to 'network' and share ideas with other franchisees
- Franchisor may offer training on how to set-up/run the business
- Benefit from any national brand advertising and promotional campaigns that the franchisor may pay for
- Business concept is proven to be successful

Example response

Proctor's Supplies is already tried and tested as a successful grocery franchise **(1)**. This will reduce the risk of my business failing which means that it should be easier to obtain finance from a bank or other lender **(1)**. I may pay a lower interest rate or be able to borrow more money than if I were to set up an independent grocery store from scratch **(1)**.

Section B

Q52

- Online survey/questionnaire

Example responses

Using an online survey would allow me to reach a large number of customers **(1)** and is easy to set up **(1)**.

Section B

Q53

a) i) Human Resources

a) ii)

- Performance management of employees
- Responsibility for health and safety in the workplace
- Ensuring compliance with employment legislation

Section B

Q53

- b)
- To have/maintain good product knowledge
 - To engage with customers (or a version of this e.g. to communicate well with customers, to dress appropriately, smartly etc)
 - As this is a local grocery store, **do not accept** 'after sales service' unless a clearly valid explanation is provided which justifies.

Example responses for explanations:

If my staff maintain good product knowledge, they will always be able to answer customer queries regarding Proctor's Supplies products.

Section B

Q54

Advantages of offering a discount include:

- Allowing Proctor's Supplies achieve a quick boost to sales
- Encouraging a customer to trial a new product
- Encouraging a customer to purchase in bulk
- Encouraging a customer to switch brands
- Potential sales of other grocery products once the customer is in the store

Disadvantages of offering a discount include:

- Damaging effect on profit levels
- Offering a short-term only boost to sales of grocery products
- Customers expecting further promotions and deals
- Damaging the brand image of Proctor's Supplies

Example responses

A discount may encourage a new customer to enter Proctor's Supplies and try a new product **(1)**, if the customer likes the product they may return in the future to purchase the same item or other items from the store **(1)**.

However, by offering a discount I will be reducing the amount of money that I am bringing into the business **(1)** this means that I will make less profit at the end of the year **(1)**.

Section B

Q55

Factors to consider when pricing products for Proctor's Supplies may include:

- Income levels of target customers
- Price of competitor products
- Local market factors, e.g. unemployment etc
- Convenience of a local grocery store
- Franchisor's rules on pricing products

Example response

One factor may be the price of competitor products **(1)**. The grocery market is competitive with a number of supermarkets and shops selling the same/similar grocery brands. If Proctor's Supplies products are not different to those sold by rivals it would be unwise to price my products a lot higher because customers will be unwilling to pay my high prices **(1)**.

Section B

Q56

The benefits of market segmentation include:

- Ensuring customer needs are matched and met **(1)** in order to increase sales and business profits **(1)**
- Potential for increased profits / profitability **(1)** as the business will ensure the correct products are available for the customers visiting the store **(1)**
- Increased customer retention **(1)** thereby increasing the number of repeat sales **(1)**
- Allows for targeted marketing **(1)** and increasing the number of customers coming to the business **(1)**
- Potential for an increase in market share **(1)** thereby increasing the image of the customer **(1)**

Section B

Q57

Competitive pricing occurs when a business sets the price of its products based on what the local competition are charging **(1)**. It is often used by businesses that sell similar products in the same area **(1)**.

Section B

Q58

- Selling price (£1.15) x number of sales (30) **(1)**
- Daily total = £34.50 **(1)**
- Weekly total = £34.50 x 6 (no sales on Sunday) =
£207 **(1)**

Section B

Q59

a) Fixed costs are those costs that do not vary with output.

b) Fixed costs include:

- Rent
- Loan repayments
- Insurance
- Advertising
- Salaries
- Utilities

Section B

Q60

a)

Fixed Costs

Selling price per unit – Variable cost per unit

5000

10 – 5 **(1)**

1 000 units (1)

Section B

Q60

b) Break-even information can be used to:

- Inform me how long it will take before a new product or start up reaches profitability
- Help me to understand the viability of a business proposition or idea
- Calculate the margin of safety
- Assess the level of risk of introducing a new product

Example response

The break-even information will help me understand the level of risk **(1)** involved in selling the food hampers **(1)**.

Section B

Q60

c)

Profit = Sales revenue – Total costs

Sales revenue = $1,750 \times \text{£}10 = \text{£}17,500$ **(1)**

Variable costs = $1,750 \times \text{£}5 = \text{£}8,750$ **(1)**

Fixed costs = $\text{£}5,000$

Profit = $\text{£}17,500 - (\text{£}5,000 + \text{£}8,750)$

= $\text{£}17,500 - \text{£}13,750$

= $\text{£}3,750$ **(1)**

Statement: Profit **(1)**

Section B

Q61

a) Operations activities of grocery product producers/suppliers include:

- Production planning
- Producing the products
- Quality control
- Stock control
- Logistics

Section B

Q61

The impact of the economic recession on product development may include:

- Customer demand for cheaper products may increase so the type/range of products developed by may change due to the recession
- Sales of grocery products may reduce leaving less money for product development
- Impact of government intervention, e.g. reduced interest rates, may leave grocery product producers/suppliers with more money for product development

Example response

An economic recession may result in customers' incomes reducing and therefore demand for basic grocery products may increase at the expense of premium brands **(1)**. The types of products that suppliers develop during a recession will differ in line with changing customer demand **(1)**, e.g. if they were to develop a new range of frozen pizza they might develop a lower-cost product range rather than a more luxurious selection which may be more popular in a boom **(1)**.

Section B

Q62

Advertising in local papers will be low cost. (L1) I will be able to afford this and it would widen my target audience as many people read newspapers. (L2) However, I need to be aware that not everyone in my local area will read a newspaper so my target customers might not be aware of my business. (L3) Also, repeat adverts in local papers can be expensive, this would reduce my profits. (L3)

Leaflets are easy to distribute to lots of people (L1) so this could widen my possible audience. (L2) The leaflet can be kept for reference and are usually very colourful to attract people's attention. There is a danger though that people may see leaflets as junk mail and throw them away without reading them. (L3)

I would choose to advertise in the local paper as this should provide more of the local community with information about Proctor's Supplies and allow me to compete effectively with other local stores. Producing colour leaflets may be expensive, and there is no guarantee that people who are handed them will read or keep them. (L4)

Section B

Q63 a

- To reduce risk
- To understand the market
- To promote the organisation
- To aid decision making
- To gain customers' views and understand their needs
- To inform product development

Section B

Q63 b

- Observations
- Questionnaires
- Surveys
- Focus groups
- Consumer trials

Section B

Q63 c

Benefits may include:

- Research will be tailored to the needs of the business and answer its specific requirements
- The results are more likely to be up to date
- The results are not available for competitors to view

Example response

- Primary research can be designed by the business to answer its specific needs **(1)**. This means that it is more relevant and provide better quality data for me to make decisions **(1)**. It means that any decisions that I make are more likely to be successful and reduce risks **(1)**.

Section B

Q64

Benefits may include:

- Do not have to share profits / can keep all profits made
- Can make all decisions without consultation
- Easy to set up / has few legal requirements
- Not much capital is required

Example response

- A sole trader is responsible for all decisions made **(1)**. This means that they do not have to consult or seek approval from anyone else **(1)**. It means that I will enjoy full freedom and able to make whatever decisions I wish **(1)**.

Section B

Q65 a

A unique selling point is a feature that makes a business different to or distinctive from its competitors.

Example response

- A unique selling point is a feature that will make the ice cream café different to other businesses in the area **(1)**. It encourages potential customers to visit your business instead of competitors **(1)**.

Section B

Q65 b

- Location, e.g. geographical location, ambience, décor
- Product/service features, e.g. taste, flavours
- Design
- Functions
- Appearance
- Selling price

Example responses

The location of the ice cream café could lead to a unique selling point (1) for instance, if it is based in the centre of the town or has a pleasant/unique décor (1).

Section B

Q65 a i

Total costs = Fixed costs + Variable costs (1)

Daily variable costs = £0.80 x 150 = £120 (1)

Total costs = £300 + £120 = **£420** (1)

Section B

Q65 a ii

- Profit = Revenue - Total costs **(1)**
- Revenue per day = $£3.40 \times 150 = £510$ **(1)**
- Revenue per week = $£510 \times 7 \text{ days} = £3,570$ **(1)**
- Daily total costs = $£420$ **(OFR)**
- Total costs for the week = $£420 \times 7 = £2,940$ **(1)**
- Profit for the week = $£3,570 - £2,940 = £630$ **(1)**

Section B

Q65 b

- Copyright and patent
- Product safety standards

Example response

- The new ice cream must meet all product safety standards **(1)** for example, it must not contain a harmful quantity of a specific ingredient **(1)**.

Section B

Q65 c

- Advertising
- Price changes
- Adding value, e.g. changing the ingredients used for one of the ice cream recipes
- Expanding to new markets, e.g. targeting new age groups
- New packaging / ways of presenting the ice creams

Section B

Q66 a

Advantages of taking a loan from a family member/Uncle Percy:

- Informal arrangement
- Easy to arrange – no forms
- Money may be lent free of interest and fees
- Possibly no pressure to make regular repayments

Disadvantages of taking a loan from a family member/Uncle Percy include:

- Uncle Percy may not have all of the money required
- Uncle Percy may ask for the money to be repaid at short notice
- Could lead to family disagreements

Example responses

- Borrowing the funds from Uncle Percy will be relatively easy with no forms to complete **(1)** so I am likely to receive the funds quickly **(1)**.
- Uncle Percy is unlikely to charge me interest **(1)** so it is likely to be a cheap way to access the funds and leave me with more profit **(1)**.
- Uncle Percy might suddenly ask for the money to be repaid at short notice **(1)** which I might struggle to be able to do as a new business with limited cash **(1)**.

Section B

Q67 a

Point of sale advertising is any advert displayed at the point when a customer will purchase

Example response

Point of sale is advertising displayed at the point that a customer makes a purchase **(1)** for example, adverts or displays near a till point **(1)**.

Section B

Q67 b

- Discounts
- Competitions
- Buy one, get one free (BOGOF)
- Free gifts / product trials
- Loyalty schemes

Section B

Q68 a

- Sales revenue line
- Fixed cost line
- Variable cost line
- Total costs line

Section B

Q68 b

Break-even information can be used to:

- Inform me how long it will take before a new product or start up reaches profitability
- Help me to understand the viability of a business proposition or idea
- Calculate the margin of safety
- Assess the level of risk of introducing a new product
- Assess the impact of changing the price charged

Example response

- The break-even information will help me to identify the point that my business is likely to start to make a profit **(1)** so I will know what risk is involved **(1)**.

Section B

Q69

Price skimming will involve me charging a higher price compared with similar products offered by competitors **(L1)**. It will signal that my ice creams are a luxury product which are superior to those offered by competitors **(L2)**. However, there is a risk that customers may not want my ice creams enough to pay the additional price charged, which will reduce my profitability and/or market share **(L3)**.

Price penetration will involve me charging a lower price compared with similar products offered by competitors **(L1)**. The lower price should encourage customers to try my ice cream rather than those sold by competitors **(L2)**. However, the lower price can only be offered for a short period of time as it will reduce my profitability which I cannot afford to do for long as a new business **(L3)**.

I would choose price penetration for my business. It is a new business and is unknown to customers. The lower price will encourage customers to try my ice creams and afterwards I am confident that they will become loyal to my product as the taste is better than others offered by competitors. The short-term reduction in the profits that I earn will be made up over time by customer loyalty **(L4)**.

Section B

Q70

Analyse two benefits of starting your business as a partnership than as a sole trader.

Benefits may include:

- You can share the workload/ideas
- Capital can be invested from both partners/external sources of finance more likely to lend
- You will not be responsible for all of the firm's debts
- Responsibilities can be shared according to each person's skills/specialism
- Business can function if one partner is away, e.g. sickness and holiday

Example responses

Responsibilities in the business can be shared amongst the partners (1). For example, I may be responsible for marketing and the other for finance (1). This is likely to reduce my stress levels (1).

Capital can be contributed from each partner (1) which means that there is potentially more capital (1) which may allow the business to grow more quickly (1).

Section B

Q71

Explain one reason why a business plan may be needed for your new business.

- Reasons for a business plan may include:
- To support an application for finance
- To communicate the business idea to other interested parties
- To support you to plan and organise activities
- To help to identify potential problems
- To help forecast any financial/production data
- To prompt you to consider all key aspects when setting up the business/to set out your aims/goals/objectives or what you want to achieve
- To increase the chances of the business being successful / reduce risk

Example response

- A business plan may be requested by a bank before lending money (1). This will support any application for finance (1) so that the bank is more likely to grant the application (1).

Section B

Q72

Identify two stages of the product life cycle.

- Development/Launch
- Introduction
- Growth
- Maturity/Saturation
- Decline

Section B

Q73

State and explain two decisions which the product life cycle may help you to make.

- To change the price of the product
- To launch a promotional/advertising campaign for a product
- To start to develop a new product
- To withdraw a product from the market
- To change the place that a product is available
- To add new features to the product
- To know when to introduce extension strategies

Example response

- Looking at the product life cycle positioning of a product can help you decide if the price needs to change (1), such as to reduce the price to stimulate more demand for a product in decline (1)

Section B

Q74 a

Identify two ways you could segment the market for mobile phone cases.

Segmentation types may include:

- Age
- Gender
- Occupation
- Income
- Geographic
- Lifestyle/Behaviour – e.g. type of phone used (android v. apple)
- Demographics

Section B

Q74 b

State and explain one benefit which you may gain from segmenting the market.

Benefits may include:

- Ensures customer needs are matched and met or better understand customers
- Potential for increased profits/profitability
- Increased customer numbers or retention
- Allows for targeted marketing/no wasted marketing/know who to aim marketing at
- Potential for an increase in market share/identify gaps in the market

Example response

- Increased customer loyalty (1) as the products may appeal more to their tastes (1)
- Able to target specific customer more easily (1) so that advertising is more relevant (1)

Section B

Q75

State and explain one advantage and one disadvantage of carrying out your market research using a focus group.

Advantages of using a focus group include:

- Can obtain opinions/ideas or in-depth views
- The researcher can probe responses/more detail information is gained
- Data will be exclusive or relevant to you
- Can gain visual clues/observations and body language

Disadvantages of using a focus group include:

- Only a limited number of respondents
- Can be expensive or time consuming
- Some members of the group may not participate or take it seriously
- The group may be dominated by one member or not be honest in their views
- Group may not represent the demographics of the whole market

Example responses

- In-depth views can be obtained (1) which the researcher can probe in more detail to gain a deeper understanding (1).
- However, some quiet members may not participate honestly (1) and feel reluctant to go against the views of a dominate member of the group so the researcher may not gain an unbiased outcome (1).

Section B

Q76

State and explain two methods which you could use to differentiate your mobile phone cases from others available in the market.

- Brand image – e.g. have a logo on the case
- Design mix – e.g. add new features
- Clear unique selling point (USP) – could give specific examples
- Packaging

Example responses

- The phone cases could have clear branding (1) which would be different to other cases on the market (1).
- Another way would be to develop a clear USP (1) such as a specific function that no other case on the market has (1).

Section B

Q77

- **State and explain two activities which Raj may need to carry out as part of the Human Resources function.**

Activities carried out by the Human Resources function include:

- Recruitment and selection of employees
- Training and development of employees
- Performance management of employees – e.g. reviews/appraisals
- Responsibility for health and safety in the workplace (allow references to health)
- Ensuring compliance with employment legislation

Example response

- Raj would be responsible for selecting new staff for the business (1) including interviewing and making a job offer (1).
- He would be responsible for health and safety in the workplace (1) such as ensuring that all machinery used to make the cases have the appropriate safety guards and staff wear the correct safety clothing (1).

Section B

Q78

State and explain two benefits of obtaining capital from a business angel.

Indicative Content

- May have access to a large sum of money
- Can benefit from the expertise/ideas of an experienced entrepreneur
- Can gain finance for a risky business idea that other lenders may not consider
- Is likely to get a quick decision on investment
- This is a form of equity finance so no debt or interest payments

Example responses

- The business angel is likely to have a lot of funds available (1) so the business may be able to obtain larger amounts of money (1).
- The business angel will be an experienced entrepreneur and able to offer help and advice (1) which will result in an increased chance of the new business idea being a success (1).

Section B

Q79 a

- Psychological pricing

Section B

Q79 b

Calculate the total revenue which you expect to earn from the sale of this range of mobile phone cases over four weeks. Show your workings.

- Selling price (£9.99) x number of sales (25) **(1)**
- Weekly total = £249.75 **(1)**
- 4-week total = £249.75 x 4 weeks = **£999 (1)**

Alternative method

- $25 \times 4 = 100$ units sold in 4-week period **(1)**
- $£10 \times 100 = £1000$ **(1)**
- (then subtract $100 \times 1p = £1$)
- Answer = **£999 (1)**

Section B

Q80 a

Calculate the break-even point per month for the new range of computer tablet cases using the forecasted figures.

$$\frac{8\,000 (1)}{30 - 10}$$

Correct answer = 400 (1)

Section B

Q80 b

Explain one external technological factor which may affect the accuracy of the forecasted figures used to calculate the break-even point.

- Technological factors may include:
- New style devices emerge which do not fit into the cases designed
- New technology leading to rival producers producing their cases at a lower cost

Example responses

- New production technology may be launched (1) which results in producing cases at a lower cost (1).
- New products are released regularly (1) which may lead to production costs or prices changing (1).

Section B

Q80 c

Calculate the amount of profit or loss which you will make per month, based on this forecast. Show your workings and state whether you will make a profit or a loss.

- Profit = Sales revenue – Total costs
- Sales revenue = $300 \times £30 = £9,000$ (1)
- Variable costs = $300 \times £10 = £3,000$ (1)
- Fixed costs = £8,000
- Profit = $£9,000 - (£3,000 + £8,000)$
- = $£9,000 - £11,000$
- = - **£2,000** (1)
- Statement: Loss (1)

An answer which ignores Fixed costs will arrive at £6,000 profit (3 marks)

An answer which ignores Variable costs will arrive at £1,000 profit (2 marks)

Section B

Q82

- **Identify three sales promotion techniques which you could use.**

Sales promotion techniques include:

- Discounts/money off coupons or vouchers/pricing offers
- Competitions
- Buy one get one free (BOGOF)
- Point of sale advertising
- Free gifts/customer product trials
- Loyalty scheme
- Celebrity endorsements/YouTube vloggers etc.
- Advertising channels – e.g. radio, newspapers, digital media

Section B

Q83

Analyse two ways development of the new computer tablet cases may be affected by changes to laws such as product safety standards.

- The impact of changes to laws may affect the development of the new computer tablet cases:
- Cost of producing the cases may increase/decrease necessitating a change to the price charged
- New production techniques need to be introduced
- New production technology/equipment needs to be purchased
- Different raw materials may need to be sourced
- New skills required by production staff necessitating staff training/recruitment
- New case designs may need to be introduced thereby increasing the workload of specific functions, e.g. marketing, research and development

- **Example responses**
- The changes in product safety standards may mean that the materials used to produce the cases may need to change (1). This will result in a possible change of supplier (1) and possible increase/decrease in the cost of producing the cases (1).
- Copyright/patent rules may change which may make it harder to 'copy' certain styles of tablet case (1). This may require extra work such as design and marketing (1) which will increase business costs (1).

Section B

Q84

Recommend which method you think should be used. Justify your answer.

- Advertising using social media will be low cost (L1). I will be able to afford this and it would appeal to my target market as most people who use social media will use a tablet or smart phone and therefore need a case to store it (L2). However, I need to be aware that the advertising will reach an international market and I may not be able to fulfil orders from some parts of the world as I am only a small business (L3).
- Radio advertising will target only people in the local area (L1) so they can all access my business easily (L2). The advert can attract attention via sound and a jingle could be included to make the advert memorable (L3).
- I would choose to advertise in social media as it is more aligned to the needs of my target market. Many people who listen to the radio advert will not be in my target market and therefore I will be paying for a more expensive advert with a lot of wastage (L4).