Question 1

Question Number	Answer	Mark
1 (a)	**Knowledge 1, Application 2, Analysis 1** **Knowledge: 1 mark** for understanding of internal finance, finance generated within the business/owner's capital, personal savings, retained profit **or** giving a reason for using internal finance e.g. retain control **Application: up to 2 marks** for contextualized examples e.g. • Mumtaz is a private limited company owned entirely by the Akbar family • High sales revenue and growth of ready meals indicates the business can use retained profits as a source of finance • Sales revenue of around £25m and ready meals part of the business is growing by 15-20% per year **Analysis: 1 mark** for developing a reason e.g. • Internal finance is cheaper as there are no borrowing costs, such as interest payments • Internal finance enables the Akbar family to retain control of the business	**(4)**

Question Number	Answer	Mark
1 (b)	**Knowledge 1, Application 3** Quantitative skills assessed: **QS5:** calculate cost, revenue, profit and break even **QS9:** interpret, apply and analyse information in written, graphical and numerical forms **Knowledge: 1 mark for** Understanding of the margin of safety: the difference between the actual output and the break-even output Margin of safety = sales volume – break-even output **Application: up to 3 marks for:** • Calculation of unit contribution: £5-£2 = £3 • Calculation of break-even output: $\frac{3}{3}$ = 1m units • Margin of safety = 1.5m – 1m = 500,000 units Can accept 0.5 million **NB:** Award 4 marks if the candidate only states 500,000 units Award only 3 marks if candidate states/calculates 0.5	**(4)**

Question Number	Indicative content	
1 (c)	**Knowledge 2, Application 2, Analysis 3, Evaluation 3** **Indicative content** • Organic growth occurs when a business expands internally and does not involve another business taking over or merging with it **Reasons for organic growth:** • Mumtaz Foods retains control especially as it is a family owned business • It maintains its existing management/structure/culture • It enables the business to plan for and control growth e.g. the decision to enter the ready meals and halal baby food market plus to open its own restaurants and factories *Possible counterbalance:* • Organic growth is slower e.g. Mumtaz Foods has existed since 1979 and has only gradually grown to its current size • Organic growth is limited, for example the business has only expanded in the Asian food market • Limited finance available to fund organic growth e.g. Mumtaz has only used internal finance *Potential judgement* • Organic growth is the right decision because it enables the business to maintain control, which is especially important because Mumtaz is a long established business that has always been owned by the Akbar family • Organic growth is not the right decision because the business may have been slower than its competitors to grasp the opportunities offered by the growing ready meals market	**(10)**

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	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–6	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7–10	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s).

		Assessment is balanced and well contextualised, using quantitative and qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1 (d)	**Knowledge 2, Application 2, Analysis 4, Evaluation 4** **Marks for application and analysis include up to 2 marks for quantitative skills** **QS9:** Interpret, apply and analyse information in written, graphical and numerical forms • Economic growth is an increase in the output of goods and services produced in an economy over time • Inflation measures the general rise in aggregate prices • Unemployment measures the % of the working population who are without a job and actively seeking work • The £/$ exchange rate measures how many dollars can be exchanged for one pound Impacts**:** • Rising unemployment could negatively affect Mumtaz's restaurants due to customers cutting back on meals out, given lower disposable income • Rising inflation (from 1.2% to 2.7%) may add to Mumtaz's costs, such as energy, which may result in a fall in profit margins • A weaker £ (a fall of 24 cents between 2016 and 2020) could result in higher import costs especially for ingredients if they are priced in dollars *Possible counterbalance* • Rising unemployment may benefit the ready meals business as customers may prefer to stay at home and choose an 'affordable treat' rather than eating out • Rising inflation may be passed on in the form of higher prices, which could have little impact given that Mumtaz Foods sells premium products • A weaker £ could benefit Mumtaz's export sales, especially as its ready meals products are sold in more than 40 countries *Potential judgement* • The unemployment rate is forecasted to increase from 4.8% to 6.5%, which may have a negative impact on	
	the restaurant business because it is a luxury good and people may need to make economies. • Rising unemployment may have a positive impact because of the greater availability of workers especially for Mumtaz's new factory in Bradford • The impact may be negative for the restaurants because demand is likely to be more income elastic but positive for ready meals. Overall impact on Mumtaz may depend upon which part of the business is bigger	**(12)**

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Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–8	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1(e)	**Knowledge 4, Application 4, Analysis 6, Evaluation 6** **Arguments for producing own label ready meals for supermarkets** • The ready meals market grew by 2% in volume and value in 2016 • Supermarket 'own label' ready meals have a combined market share of 68%, with Tesco owning 18% • Mumtaz already supplies Tesco, Asda and Morrisons • 'own label' ready meals can be used by supermarkets to meet a wide range of customer needs and specific tastes • Mumtaz has increased its production capacity enabling it to meet the potential increased demand from supermarkets • Increased demand may enable the business to benefit from economies of scale and higher levels of capacity utilisation, resulting in lower unit costs • Higher sales and lower unit costs may result in greater profitability and further expansion for Mumtaz Foods **Arguments for selling more Mumtaz premium brand name products** • There is a trend amongst consumers to prefer premium ready meals • It is predicted that future success may be for innovative new products – Mumtaz's successful Halal baby food range proves that it is capable of developing successful new products • Ansoff would classify this strategy as market penetration, which carries the least risk	

- Porter would classify this strategy as 'differentiation' enabling Mumtaz to gain a competitive advantage through a USP of quality and authenticity
- 'Own label' relies heavily on price discounts and promotional offers – focusing on selling Mumtaz products would avoid this and enable the business to charge higher prices

Possible recommendations

- Mumtaz should choose the option of supermarket 'own label' ready meals because supermarkets own 68% of the market. Supermarkets have a greater distribution which might therefore enable Mumtaz to sell more of their products and enable them to achieve the aim of becoming the UK's market leader in Asian ready meals
- Mumtaz should choose to sell more Mumtaz premium brand name products because it is an established brand that is already growing rapidly in UK supermarkets and abroad. This strategy is less risky as it is not dependent on a few supermarkets and enables the business to maintain competitive advantage through differentiation

Example of possible 'MOPS' recommendations

Market – the market is the ready meals market. It is a growing market which is dominated by supermarket own brands. Consequently, in order to achieve the aim of market leader, focusing on producing 'own label' ready meals would appear to be the best option.

Objectives – Mumtaz aims to be the market leader in Asian ready meals. It already has an established reputation for premium products and supplies the big supermarkets (e.g. Tesco 18%) with its own products. Consequently, selling more Mumtaz premium brand products would be the best option.

Product – Mumtaz is innovative e.g. the new Halal baby food range. The introduction of new product ranges is an important factor in driving sales. Retailers offer different recipes which enable them to meet a wide range of consumer tastes. Consequently, the supermarket 'own label' option should be chosen because it offers Mumtaz more opportunities to sell a wider range of products enabling it to achieve its aim of becoming market leader.

Situation – Mumtaz is an expanding business with the ready meals part of the Group growing by 15-20% a year. It is also exporting to over 40 countries and planning to manufacture ready meals in Asia. Consequently, the best option would be to focus on premium brand products so they could establish Mumtaz as a global brand and achieve its aim of becoming market leader.

(20)

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Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/ effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed. Quantitative or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).

Question 2

Question Number	Answer	Mark
2(a)	**Knowledge 1, Application 2, Analysis 1** Quantitative skills assessed: **QS8:** use and interpret quantitative and non-quantitative information in order to make decisions **QS9:** interpret, apply and analyse information in written, graphical and numerical forms **Knowledge: 1 mark for** understanding the use of a cash flow forecast e.g. he can estimate expected cash inflows/outflows over a period of time **Application: up to 2 marks for use of evidence/the cash flow forecast e.g** • Hardy Punglia forecasts negative net cash flows in January and February/cash flows January (5 000) and February (400) • The closing balance is forecast to be negative in January and February. January (3 000) and February (3 400) • Hardy Punglia is planning to expand his business **Analysis: 1 mark for explaining one use of the cash flow forecast e.g** • The cash flow forecast may enable Hardy Punglia to arrange additional finance from his bank, to cover the negative closing balances • Drawing up a cash flow forecast could be valuable when discussing the additional finance required for the business expansion with potential investors	**(4)**

Question Number	Answer	Mark
2(b)	**Knowledge 1, Application 3** Quantitative skill assessed: **QS5:** calculate cost, revenue, profit and break-even **Knowledge: 1 mark for** identifying the profit variance formula (can be implied) • Actual profit – budgeted profit (can be implied), or • Formula for the calculation of cost or sales revenue variance **Application: up to 3 marks for correct calculations** • Calculate the budgeted profit: £20 900m - £16 204m = £4 696m • Calculate the actual profit: £23 310m - £18 226m = £5 084m • Calculate the variance in profit: £5 084m - £4 696m = £388m Alternative calculation • Calculate the sales revenue variance: £23,310m - £20,900m = £2410m • Calculate the cost variance: £18,226 - £16,204m = £2022m • Calculate the profit variance: £2410m - £2022m = £388m NB: if the only answer given is £388m/388m award 4 marks If the only answer given is £388/388 award 3 marks	**(4)**

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 3, Evaluation 3** **Indicative content** • Just in time organises operations so that items of stock arrive immediately before they are needed for production or sale **Reasons why it has contributed to Zara's success:** • Limited stock encourages Zara customers to purchase every time they visit • Zara customers visit more frequently, 17 times per year on average, and therefore may buy more items • Limited stock may result in less unsold clothes which is essential in the fast changing (dynamic) fashion market *Possible counterbalance* • Danger of running out of stock may frustrate Zara's customers and therefore may damage its reputation • Selling small amounts of different clothes may increase average costs e.g. distribution costs • It may be difficult to achieve purchasing economies of scale as a result of buying a larger range of clothing in small quantities *Potential judgement* • JIT has contributed to Zara's success because regularly introducing new clothes in limited quantities attracts customers to visit more often leading to more sales • Zara's success may be due to other factors such as product design and marketing	**(10)**

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Level 4	7–10	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced and well contextualised, using quantitative and qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
2(d)	**Knowledge 2, Application 2, Analysis 4, Evaluation 4** **Indicative content** • Scenario planning is the process of anticipating possible changes in a business's situation and devising ways of dealing with them **Potential usefulness of scenario planning:** • The Barnsley fire enabled ASOS to identify key risks and therefore ASOS was able to quickly respond to the Berlin fire and limit potential damage to their business • ASOS only suffered short term disruption after the Berlin fire and were able to fulfil orders from its Barnsley warehouse so sales did not suffer • The ASOS website in Germany and the UK were able to continue to operate normally so online orders were still fulfilled as normal **Potential limitations:** • ASOS still lost stock worth £6m as a result of the fire in Berlin therefore scenario planning cannot totally eliminate damage to the business • The opportunity cost/trade offs in terms of time and money spent on identifying and mitigating potential risks e.g. less money available to spend on website development/TV advertising • ASOS would have faced an increase in costs for the business by having to fulfil European orders through the Barnsley warehouse *Potential judgement* • ASOS's scenario plan was useful because it was put into operation after the Berlin fire, resulting in its share price recovering quickly which may have reassured investors • ASOS cannot plan for all potential disasters, such as flood damage to stock or its website being hacked. Therefore scenario planning is more useful if ASOS can identify the risk and implement effective plans to limit the damage to the business	**(12)**

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Question Number	Indicative content	Mark
2(e)	**Knowledge 4, Application 4, Analysis 6, Evaluation 6** **Indicative content** • Quality control uses quality inspectors as a way of finding any faults whereas TQM is a quality assurance system where quality is the responsibility of all employees **Quality control – arguments for:** • Zara can specifically train inspectors to sample clothes to check that quality standards are being maintained therefore allowing other employees to focus on creating new designs. • Quality control is less costly as inspectors only check a sample of clothing in their factories in Spain and Portugal, enabling more resources to be focussed on marketing/retail development as other stores are opened • Quality control is less time consuming, as it should allow Zara to use existing quality inspectors and processes in their new stores, reducing the need to train all staff across 850 stores and more production staff in TQM **TQM – arguments for:** • TQM is a right first time approach ensuring that at every stage of production clothing is checked for quality, rather than a sample, which should eliminate any defects • TQM may empower its employees resulting in motivational benefits for Zara because it trusts its employees to take responsibility to guarantee the standard of quality of their own work • Establishing a culture of quality in the new employees will be important to Zara, to prevent quality standards deteriorating as the business expands to 850 stores and employs additional production staff in their factories in Spain and Portugal *Potential recommendation* • In the short term, quality control may be cheaper and quicker as fewer employees would be needed to carry out the quality inspection compared to TQM. This potential increase in speed may allow Zara to get the stock to the stores quickly, which the fashion market requires • TQM may ensure zero defects on Zara's clothing, which will reduce the number and cost of faulty returns therefore improving their reputation in the short term and increase the future profits in the long term. This could be vital as the business increases its customer base.	**(20)**

	Market – Zara operates in the fast changing, dynamic fashion market. They compete against brands such as Topshop and H & M **Objectives –** Zara aim to expand the business further by opening another 200 stores **Product –** Zara has a reputation for being innovative. They constantly bring out new products, but in limited supply in order to create an image of exclusivity **Situation –** Zara is a well established and successful business. It is one of the market leaders and generates impressive profits	

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