

1: Understanding business

Paper 1 – Topic questions

The questions in this document have been compiled from a number of past papers, as indicated in the table below.

Use these questions to formatively assess your learners' understanding of this topic.

Question	Year	Series	Paper number
4c	2017	March	12
3c	2017	June	11
3c	2018	March	12
3e	2018	November	11

4 BGN sells furniture such as beds and tables. It started as a partnership but is now a private limited company. BGN has expanded quickly and has 10 shops located in different cities. Each shop manager is responsible for recruitment and decisions about inventory levels. They send the Board a monthly report. The Managing Director has a laissez-faire leadership style. There has been an increase in customer complaints and employees think internal communications need to be improved.

(c) Identify and explain **two** advantages to BGN of being a private limited company.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

.....[4]

- 3 Wilde Soup Stop (WSS) makes a range of soups and hot drinks. It owns 30 shops and has sold its franchise to 10 other shops in country Z. The Marketing Director said: 'Results from our focus group show that being an ethical business is important'. WSS plans to extend its product range to include curries and cakes. WSS will need to change its brand image. The Marketing Director cannot decide whether to use sponsorship or newspaper advertising as the main method of promotion.

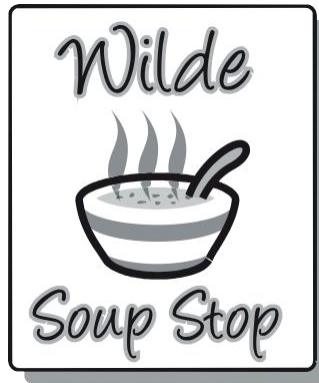


Fig.1: Existing logo for WSS

(c) Identify and explain **two** advantages to WSS of selling its franchise.

Advantage 1:

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Explanation:

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Advantage 2:

.....

Explanation:

..... [4]

- 3 STC manufactures toothpaste for the mass market. STC's products have price elastic demand as there is a high level of competition in this market. STC uses a competitive pricing strategy (method). The marketing manager is thinking of changing this pricing strategy to increase sales (see Table 2). The head office of STC is located in country X, but the factory is in country Y. There have been complaints about communication issues between the managers and workers. STC has continued to grow but the managers still have a laissez-faire leadership style.

Table 2: Forecast effect of changing price

Current price	Quantity demanded	Planned new price	Forecast quantity demanded
\$2.00	100 000 per month	\$1.50	150 000 per month

(c) Identify and explain two disadvantages to STC of business growth.

Disadvantage 1:.....

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Explanation:.....

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Disadvantage 2:.....

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Explanation:.....

..... [4]

3 Filltum is the brand name for a chain of vegetarian restaurants. It has 28 restaurants, 16 of which are operated by franchisees. The Managing Director is pleased with its fast rate of growth at a time when many businesses are failing. She said: 'Having a well-motivated workforce is important to our success. All new employees are given on-the-job training.' Filltum plans to have 10 more restaurants in the next year. The Managing Director has to decide whether to sell additional franchises or open its own restaurants.

(e) Do you think selling more franchises is the best way for Filltum to expand? Justify your answer.

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..... [6]

Question	Answer	Mark
4 (c)	<p>Identify and explain two advantages to BGN of being a private limited company.</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Limited liability [k] compared to when it was a partnership [app] • Easier to raise money / capital [k] as business is expanding quickly [app] • More credibility with suppliers [k] could get better terms when buying furniture [app] • Continuity [k] • No need to publish (detailed) accounts [k] of its 10 shops [app] • Separate legal identity/ incorporated [k] • Control over who can buy shares/ less risk of takeover [k] <p>Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, 10 shops, different cities, (increase in) customer complaints, decisions over recruitment and / or inventory, started as a partnership, expanded quickly</p>	4
3 (c)	<p>Identify and explain two advantages to WSS of selling its franchise</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Cheaper way to expand [k] the 10 franchisees pay some costs [app] • Each franchisee pays money [k] so may be able to open more shops in future [app] • Can expand more quickly [k] • Widen brand awareness [k] as logo is seen in more places [app] • Franchisees responsible for day to day management [k] WSS has time to focus on extending its product range [app] • Retain control of the image [k] so it can ensure the business remains ethical [app] 	4

Question	Answer	Mark
3 (c)	<p>Identify and explain two disadvantages to STC of business growth.</p> <p>Knowledge (2 × 1) – award 1 mark for each relevant disadvantage</p> <p>Application (2 × 1) – award 1 mark for each relevant explanation in context.</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> • Larger business is difficult to control (k) as the factory is in another country (to head office) [app] • Communication problems [k] especially as already complaints [app] • Slower decision making [k] so less able to respond effectively to high level of competition [app] • Lower levels of employee motivation OR morale as employees are remote from managers [k] 	4
3 (e)	<p>Do you think selling more franchises is the best way for Filltum to expand? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]</p> <p>Application [1] – award 1 mark for a relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether selling more franchises in the best way for Filltum to expand</p> <p>Relevant points might include:</p> <p>Franchises:</p> <ul style="list-style-type: none"> • Do not need to raise as much capital to expand [k] as franchisee will pay a fee to buy the franchise [an] • Will receive a share of each franchise's profits [k] providing an extra source of revenue [an] • Faster way to expand [k] so able to maintain its fast rate of growth [app] • Mistakes by one franchisee may create a bad image for whole business [k] damaging reputation [an] and reducing sales revenue [an] • Will be expected to offer support and advice [k] to these and other 16 franchises [app] which can increase costs [an] • Can share risks with franchisee [k] when many businesses are failing [app] • Brand / Customer awareness increases [k] <p>Expand themselves:</p> <ul style="list-style-type: none"> • Able to keep control [k] • Keep all the profits made [k] 	6