



National  
Qualifications  
SPECIMEN ONLY

**S810/76/11**

**Business Management**

Date — Not applicable

Duration — 2 hours 45 minutes

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**Total marks — 90**

**SECTION 1 — 30 marks**

Attempt ALL questions.

**SECTION 2 — 60 marks**

Attempt ALL questions.

You may use a calculator.

It is recommended that you spend 15 minutes reading over the information provided in **SECTION 1** before responding to the questions.

Write your answers clearly in the answer booklet provided. In the answer booklet you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.



\* S 8 1 0 7 6 1 1 \*

## SECTION 1 — 30 marks

Read ALL the following information and attempt ALL the questions that follow.

### Toyota — ‘Always a Better Way’

Toyota is one of the world’s biggest car companies, selling around 10 million vehicles in 2017. Toyota offers a range of cars for different market segments, including a luxury top-end brand called ‘Lexus’. The Toyota website states that it ‘has a car for everyone’ in its product portfolio. A sample of the portfolio is shown in Exhibit 2.

The global market for cars is expected to continue to increase. Sales are predicted to rise, driven by the global economic recovery, falling fuel prices, low interest rates and higher household disposable income.

Despite its Sports Utility Vehicles (SUVs) being popular in the USA, Toyota may face a fall in demand as the current President wants consumers to purchase American cars.



#### ***Production development***

Toyota is famous for its lean production techniques such as just-in-time (JIT). Toyota also utilises its staff very effectively. Through quality circles and a suggestion system, team members strive to achieve Toyota’s quality management principle of continuous improvement. More than 90,000 employee suggestions are adopted each year, with some individual team members having contributed more than 1,000 suggestions.

While Toyota, like any modern day car manufacturer, has a capital-intensive approach using automated production lines, it places a high importance on its employees and carries out extensive workforce planning. This ensures it has sufficient staff, whilst being aware of the effects of an increasingly mechanised approach on staff numbers. Toyota has launched its own academy to provide learning and skills development covering all aspects of its business.

While an autocratic leadership style is common in manufacturing, Toyota regards all employees as members of the team. All staff are considered important contributors and are given a high level of autonomy.

#### ***Leaders in ‘green’ cars***

Toyota’s first venture into hybrid technology, which enables cars to run on both fuel and electricity, was the Toyota Prius model.

A hybrid vehicle has two engines, one electric and one conventional fuel, ie petrol or diesel. Unlike an electric car, a hybrid vehicle recharges its own battery on the move when it is being driven by the conventional engine. There is no need to look for a charging point for this type of car or wait for one to become free. It is both fuel efficient and environmentally-friendly since it has significantly low carbon emissions. Venturing into hybrid technology has helped Toyota’s customers reduce their carbon footprint.

In order to develop this eco-friendly model further, Toyota rolled out the Prius Plug-in hybrid. The Prius Plug-in can be charged at home or at a charging point for additional power. This can be completed in two hours. The fuel tank is on the left side and a plug-in socket for recharging is on the right side. As a result, the hybrid is more fuel efficient, making it more attractive to the consumer.



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### ***Star Safety System***

The Toyota Prius Plug-in also excels in terms of safety. The carmaker's Star Safety System ensures that accident avoidance features are in place, such as a system to assist with emergency braking and a camera for reversing.

With Toyota's commitment to continuous improvement, safety, environmental awareness and lean production, it is clear to see why its marketing slogan is 'Always a Better Way'.

### ***Further information***

<b>Exhibit 1</b>	
<b>Toyota's SWOT analysis</b>	
<b>Strengths</b> <ul style="list-style-type: none"> <li>• high worldwide car sales</li> <li>• large product portfolio</li> <li>• an innovator in 'green' car development</li> <li>• extensive workforce planning system</li> <li>• highly recognisable brand</li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• lack of presence in emerging markets, such as China and India</li> <li>• numerous vehicle recalls due to faults</li> </ul>
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• changing customer attitudes towards 'green' cars</li> <li>• falling fuel prices</li> <li>• global economic recovery</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>• competition from General Motors and VW group</li> <li>• rising raw material prices</li> <li>• natural disasters in Japan</li> <li>• fluctuating exchange rates</li> </ul>

**[Turn over**




Exhibit 2		
Product portfolio sample 2017		
Model	Market	Price
Lexus GSF 	Luxury	£73,375
Toyota Prius 	Eco-friendly	£24,115
Toyota AYGO 	Economy	£8,995

Exhibit 3		
Toyota's ratio analysis		
Ratio	2016	2017
Current Ratio	1.13:1	1.03:1
Gross Profit Percentage	20.41%	17.62%
Return on Equity Employed	6.27%	4.82%

The following questions are based on ALL the information provided and on knowledge and understanding you have gained whilst studying the course.

- |         |  |   |
|---------|--|---|
| 1. (a)  | Describe the benefits to Toyota of maintaining a product portfolio, as shown in Exhibit 2.                               | 3 |
| (b)     | Justify the methods Toyota uses to ensure quality.   | 4 |
| (c)     | Explain the advantages of Toyota's inventory management system, as identified in the case study.                         | 4 |
| (d) (i) | Describe 3 steps that Toyota may take in its workforce planning.   | 3 |
| (ii)    | Explain the reasons for Toyota's choice of production method.  | 4 |
| (e)     | Explain the impact on Toyota of the external factors listed in the SWOT analysis, as shown in Exhibit 1.                 | 5 |
| (f)     | Describe possible reasons for Toyota's trends in the following ratios, as shown in Exhibit 3:                            |   |
|         | • Current Ratio  |   |
|         | • Return on Equity Employed.   | 4 |
| (g)     | Justify, using examples from the case study, the methods Toyota has used to demonstrate Corporate Social Responsibility. | 3 |

[Turn over

**SECTION 2 — 60 marks****MARKS****Attempt ALL questions**

- |        |  |   |
|--------|--|---|
| 2. (a) | Describe the features of Maslow's motivation theory.                                   | 5 |
| (b)    | Explain the benefits of positive employee relations.                                   | 3 |
| (c)    | Describe the impact of current employment legislation on organisations.                | 4 |
| (d)    | Describe the following appraisal methods:  |   |
|        | • one-to-one   |   |
|        | • 360-degree   |   |
|        | • peer-to-peer.  | 3 |
| 3. (a) | Discuss the sources of finance available to a public limited company (plc).            | 4 |
| (b)    | Explain the benefits of preparing a cash budget.                                       | 5 |
| (c)    | Compare the use of functional grouping with product grouping.                          | 4 |
| (d)    | Justify the use of spreadsheets in the finance department.                             | 2 |
| 4. (a) | Describe examples of conflict that may arise between different groups of stakeholders. | 2 |
| (b)    | Discuss the methods of growth that can be used by organisations.                       | 8 |
| (c)    | Distinguish between a strategic decision and a tactical decision.                      | 2 |
| (d)    | Describe 3 internal constraints that can make decision making difficult.               | 3 |
| 5. (a) | Describe the following elements of the extended marketing mix:                         |   |
|        | • people   |   |
|        | • process  |   |
|        | • physical evidence.   | 6 |
| (b)    | Discuss the use of centralised warehousing.  | 3 |
| (c)    | Describe the following pricing strategies:   |   |
|        | • skimming   |   |
|        | • penetration  |   |
|        | • discrimination.  | 6 |

**END OF SPECIMEN QUESTION PAPER**

#### *Acknowledgement of Copyright*

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Case Study Picture 1	Mrs_ya/Shutterstock.com
Case Study Picture 2	Steve Lagreca/Shutterstock.com
Exhibit 2 Luxury car	Ed Aldridge/Shutterstock.com
Exhibit 2 Eco-friendly car	Art Konovalov/Shutterstock.com
Exhibit 3 Economy car	Dong liu/Shutterstock.com



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## Marking Instructions

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These marking instructions have been provided to show how SQA would mark this specimen question paper.

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## General marking principles for Higher Business Management

*Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.*

- (a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.
- (b) If a candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.
- (c) For **describe** questions, candidates must make a number of relevant, factual points up to the total mark allocation for the question. These should be key points; they do not need to be in any particular order. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

- award **1 mark** for each accurate relevant point of knowledge
  - award a second mark for any point that is developed from the point of knowledge.
- (d) For **explain** questions, candidates must make a number of points that relate cause and effect and/or make the relationships between things clear, for example by showing connections between a process/situation. These should be key reasons and may include theoretical concepts. There is no need to prioritise the reasons. Candidates may provide a number of straightforward reasons or a smaller number of developed reasons, or a combination of these.

Up to the total mark allocation for this question:

- award **1 mark** for each accurate relevant point of reason
    - award a second mark for any other point that is developed from the same reason.
- For each relevant point of reason candidates must give a point of identification and a point of explanation to gain a mark. This is exemplified in the marking instructions, a dash (—) is used to show the two parts of the response.
- (e) For **compare** questions, candidates must demonstrate knowledge and understanding of similarities and/or differences between things, methods or choices. The relevant comparison points could include theoretical concepts.

Up to the total mark allocation for this question:

- award **1 mark** for each accurate point of comparison.

- (f) For **discuss** questions, candidates must make a number of points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. They do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question:

- award **1 mark** for any accurate point of knowledge that is clearly relevant
- award a second mark for any point that is developed from the point of knowledge.

Where a mark is available for the development of a response this is exemplified in the marking instructions, a hollow bullet point is used to show the developed response.

Marking instructions for each question

Question			Expected response	Max mark	Additional guidance
1.	(a)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• risk is spread over different markets</li> <li>• increased profits from selling different models</li> <li>• newer models can replace those at the end of the product life cycle</li> <li>• a range of products increases brand awareness</li> <li>• able to meet the needs of different market segments.</li> </ul>	3	<p>Candidates must describe at least 2 benefits to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Award <b>up to 2 marks</b> for any one benefit.</p> <p>Accept appropriate reference to Boston Matrix.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
	(b)		<p>Responses could include:</p> <p><b>Quality circles/suggestion system</b></p> <ul style="list-style-type: none"> <li>• using members of production staff to suggest improvements <ul style="list-style-type: none"> <li>○ increases staff motivation</li> </ul> </li> <li>• workers doing the job often have a better idea than management of how to improve</li> <li>• workers have suggested the ideas themselves so it reduces staff resistance to change.</li> </ul> <p><b>Quality management</b></p> <ul style="list-style-type: none"> <li>• strong focus on customer, leads to greater customer satisfaction</li> <li>• commitment from all staff, should ensure a high-quality product</li> <li>• quality checked at all stages, means fewer products not being up to standard</li> <li>• highly skilled/trained staff, results in good customer service</li> <li>• quality inputs, leads to a high-quality product or service</li> <li>• zero error tolerance, results in less wastage</li> <li>• high-quality products, lead to loyal customers</li> <li>• high-quality products, result in the organisation having a good reputation</li> <li>• continual improvement, means the organisation stays ahead of the competition.</li> </ul>	4	<p>Candidates must justify at least 2 methods to gain full marks.</p> <p>Award <b>1 mark</b> for each valid justification.</p> <p>Award <b>up to 3 marks</b> for any one method.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
	(c)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• supplies are ordered only when they are needed for production – which means there is no wastage of inventory</li> <li>• no money is tied up in inventory – which improves cash flow</li> <li>• no large warehouse is required – saving on related costs, for example rent/security</li> <li>• strong relationships are formed with suppliers – which makes suppliers more responsive to changing external factors/demand <ul style="list-style-type: none"> <li>○ because inventory can be ordered in, at the exact moment trends are identified</li> <li>○ therefore inventory is not surplus to requirement if trends in car purchases change</li> </ul> </li> <li>• there is less chance of theft by staff or customers – because it is easier to supervise minimal inventory.</li> </ul>	4	<p>Candidates must explain at least 2 advantages to gain full marks.</p> <p>Award <b>1 mark</b> for each valid explanation.</p> <p>Award <b>up to 3 marks</b> for any one advantage.</p> <p>The method of inventory management system must come from the case study – just-in-time (JIT).</p> <p>Accept any other suitable response.</p>

			Expected response	Max mark	Additional guidance
	(d)	(i)	<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• identify how many workers are needed in a capital-intensive process</li> <li>• analyse the skills required</li> <li>• analyse the current and future staff profile</li> <li>• identify gaps and then close them</li> <li>• identify current staff training needs to meet required skills</li> <li>• train existing staff</li> <li>• recruit and select new staff.</li> </ul>	3	<p>Candidates must describe 3 steps, in any order, to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Accept any other suitable response.</p>
		(ii)	<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• the type of production will need to be standardised – so a capital-intensive process is more effective</li> <li>• large amounts of cars are required – so capital-intensive production can produce them more quickly <ul style="list-style-type: none"> <li>○ robots can be used 24/7</li> </ul> </li> <li>• if the task is complicated – capital-intensive production allows it to be carried out accurately</li> <li>• robots can perform repetitive work – that a labour force would find boring</li> <li>• robots can carry out dangerous tasks – which reduces accidents</li> <li>• using machines reduces labour – which reduces costs.</li> </ul>	4	<p>Candidates must explain at least 2 reasons to gain full marks.</p> <p>Award <b>1 mark</b> per explanation.</p> <p>Award <b>up to 3 marks</b> for any one reason.</p> <p>Accept any other suitable response.</p>

			Expected response	Max mark	Additional guidance
	(e)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• <i>changing customer attitudes to 'green' cars</i> – may give Toyota a competitive edge over other car manufacturers</li> <li>• <i>falling fuel prices</i> – will mean more customers will be able to afford to buy a car</li> <li>• <i>global economic recovery</i> – will increase sales because of falling unemployment/higher disposable incomes</li> <li>• <i>competition</i> – will mean Toyota will have to develop better products <ul style="list-style-type: none"> <li>○ deploy a successful marketing strategy to beat the competition</li> </ul> </li> <li>• <i>fluctuating exchange rates</i> – which may change import/export levels</li> <li>• <i>rising raw material prices</i> – will increase the production costs <ul style="list-style-type: none"> <li>○ which may reduce profits as expenses will increase</li> <li>○ could be passed on to customers by increasing prices</li> </ul> </li> <li>• <i>natural disasters, for example earthquakes/tsunamis</i> – could destroy factories/cause production to cease.</li> </ul>	5	<p>Candidates must explain the impact of at least 2 external factors to gain full marks.</p> <p>Award <b>1 mark</b> for each valid explanation.</p> <p>Award <b>up to 4 marks</b> for any one external factor.</p> <p>Accept any other suitable response.</p>

			Expected response	Max mark	Additional guidance
	(f)		<p>Responses could include:</p> <p><b>Current Ratio</b></p> <ul style="list-style-type: none"> <li>• increase in current liabilities</li> <li>• decrease in current assets</li> </ul> <p><b>Return on Equity Employed</b></p> <ul style="list-style-type: none"> <li>• a decreased gross profit figure <ul style="list-style-type: none"> <li>○ the knock-on effect of this could decrease Profit for the Year</li> </ul> </li> <li>• increased expenses</li> <li>• sold additional shares.</li> </ul>	4	<p>Candidates must describe at least one reason for each ratio to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Award <b>up to 3 marks</b> for any one ratio.</p> <p>Accept any other suitable response.</p>



			Expected response	Max mark	Additional guidance
	(g)		<p>Responses could include:</p> <p><b>Production of an eco-friendly car in order to reduce carbon footprint</b></p> <ul style="list-style-type: none"> <li>• to attract a new market</li> <li>• to improve reputation</li> </ul> <p><b>Developing fuel efficiency</b></p> <ul style="list-style-type: none"> <li>• can be used as a marketing tool to attract customers looking to reduce fuel costs</li> </ul> <p><b>Car safety features</b></p> <ul style="list-style-type: none"> <li>• to gain quality and safety awards <ul style="list-style-type: none"> <li>○ can be used as a marketing tool</li> </ul> </li> <li>• to compete with other car manufacturers</li> </ul> <p><b>Toyota academy/quality circles/suggestion system</b></p> <ul style="list-style-type: none"> <li>• to attract new staff</li> <li>• to motivate existing staff</li> <li>• to reduce resistance to change</li> <li>• to improve employee relations.</li> </ul>	3	<p>Candidates must justify at least 2 methods to gain full marks.</p> <p>Award <b>1 mark</b> per justification.</p> <p>Award <b>up to 2 marks</b> for any one method.</p> <p>Watch for repetition.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
2.	(a)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• Maslow's theory classifies human needs and how they are related to each other (hierarchy)</li> <li>• a person starts at the bottom of the hierarchy and will initially seek to satisfy each stage in order</li> <li>• once these needs have been satisfied they are no longer a motivator</li> <li>• if management can identify which level each employee has reached they can decide on suitable rewards</li> <li>• <b>physiological (basic) needs</b> which are, for example, food/shelter <ul style="list-style-type: none"> <li>○ can be satisfied through basic pay</li> </ul> </li> <li>• <b>safety needs</b> which are job security/safe working environment <ul style="list-style-type: none"> <li>○ can be satisfied through permanent contracts</li> </ul> </li> <li>• <b>social (love and belonging) needs</b> where most people want to belong to a group <ul style="list-style-type: none"> <li>○ can be satisfied by working with colleagues who provide support/teamwork/communication</li> </ul> </li> <li>• <b>esteem needs</b> are about being given recognition for a job well done <ul style="list-style-type: none"> <li>○ a promotion might achieve this</li> </ul> </li> <li>• <b>self-actualisation</b> is when people realise their potential <ul style="list-style-type: none"> <li>○ may be measured by the extent of success and/or challenge at work.</li> </ul> </li> </ul>	5	<p>Candidates must describe at least 2 features of the theory.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Award <b>up to 4 marks</b> for any one feature.</p> <p>Accept a diagram or list showing the 5 stages in the correct hierarchy as a feature. <b>Max 1 mark</b> for the diagram or list. If the diagram contains details of any stage, additional marks can be awarded.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
	(b)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>employees will have their chance to discuss changes or grievances so they will feel happier and more secure in the workplace</li> <li>employees will become flexible with suggestions from management making it easier to introduce change within the organisation</li> <li>disputes will be less likely to arise as employees will have been consulted <ul style="list-style-type: none"> <li>employees understand what it is that the employer is trying to achieve</li> </ul> </li> <li>the workforce will be committed, helping to ensure the business meets its objectives</li> <li>the organisation will gain a good image for treating its employees correctly/maintaining good employee relations, attracting new employees easily.</li> </ul>	3	<p>Candidates must explain at least 2 benefits to gain full marks.</p> <p>Award <b>1 mark</b> for each valid explanation.</p> <p>Award <b>up to 2 marks</b> for any one benefit.</p> <p>Accept the benefits to both the employer and to the employee.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
	(c)		<p>Responses could include:</p> <p><b>National Minimum Wage Regulations or National Living Wage Regulations</b></p> <ul style="list-style-type: none"> <li>an increase in minimum wage leads to increased costs for the organisation <ul style="list-style-type: none"> <li>this could result in lowered profits as wage expenses increase</li> </ul> </li> <li>if an organisation has been found to be paying less than the minimum wage, it may be required to make a backdated payment to its employees</li> </ul> <p><b>Health and Safety at Work Act</b></p> <ul style="list-style-type: none"> <li>the organisation must provide the correct safety equipment <ul style="list-style-type: none"> <li>increasing costs for safety equipment/training</li> </ul> </li> <li>the organisation could be temporarily closed or shut down for non-compliance</li> <li>potential for legal action by members of staff if they suffer injury at work due to non-compliance <ul style="list-style-type: none"> <li>this may result in compensation payments</li> </ul> </li> </ul>	4	<p>Award <b>1 mark</b> for each valid description.</p> <p>Award <b>up to 4 marks</b> for the impact of any one piece of legislation.</p> <p>Candidates do not have to label the Act or give the year of the Act.</p> <p>Accept impact of the General Data Protection Regulations, only if it is related to employment.</p> <p>Watch for repetition.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
			<b>Equality Act</b> <ul style="list-style-type: none"> <li>• it may be prosecuted for discrimination, for example, fined</li> <li>• it may have to revise its recruitment policies</li> <li>• it must pay both genders the same for jobs of equal value</li> <li>• it must not use discriminatory wording in its job adverts</li> <li>• it may need to invest in better accessibility, for example installing lifts and ramps</li> <li>• it must investigate issues of discrimination/ harassment/victimisation against an employee, customer or a third party</li> <li>• it must train employees on discrimination prevention/awareness.</li> </ul>		

Question			Expected response	Max mark	Additional guidance
	(d)		<p>Responses could include:</p> <p><b>One-to-one</b></p> <ul style="list-style-type: none"> <li>• a regular review of an employee's job performance which is documented and evaluated</li> <li>• review and discussion of last year's targets takes place</li> <li>• targets may be set about future performance</li> <li>• training needs are identified</li> </ul> <p><b>360-degree</b></p> <ul style="list-style-type: none"> <li>• a review of an employee's job performance, with feedback coming from subordinates, peers, supervisors and the employee themselves</li> <li>• all those involved answer the same questions (often anonymously), which allows for comparison</li> <li>• allows for a variety of viewpoints from colleagues</li> <li>• self-evaluation is an important part of this type of appraisal</li> </ul> <p><b>Peer-to-peer</b></p> <ul style="list-style-type: none"> <li>• colleagues in the same or similar position are asked to provide feedback on specific aspects of an employee's performance</li> <li>• managers are excluded from this type of appraisal.</li> </ul>	3	<p>Candidates must describe all 3 methods to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Watch for repetition.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
3.	(a)		<p>Responses could include:</p> <p><b>Share issue</b></p> <ul style="list-style-type: none"> <li>shareholders become owners of a plc, which may mean founders lose control</li> <li>large sums of finance can be raised by this method</li> <li>profits will need to be shared among more shareholders</li> </ul> <p><b>Government grant</b></p> <ul style="list-style-type: none"> <li>may take a long time to secure the grant</li> <li>must meet specific conditions to secure the grant</li> <li>does not have to be paid back</li> </ul> <p><b>Bank loan</b></p> <ul style="list-style-type: none"> <li>repaid in instalments, which aids budgeting</li> <li>once agreed, a loan is received promptly</li> <li>interest charges may affect cash flow in a negative way</li> </ul> <p><b>Commercial mortgage</b></p> <ul style="list-style-type: none"> <li>repaid with interest over a long term</li> </ul> <p><b>Debentures</b></p> <ul style="list-style-type: none"> <li>only interest is paid during the debenture period, while capital is repaid at the end of the period</li> <li>repayment at the end of the debenture period may affect cash flow</li> <li>interest needs to be paid, regardless of annual profit</li> <li>the interest charged is listed as an expense</li> </ul>	4	<p>Candidates must discuss at least 2 sources of finance to gain full marks.</p> <p>Award <b>1 mark</b> for each valid discussion point.</p> <p>Award <b>up to 3 marks</b> for any one source.</p> <p>Do not accept 'share issue' as a quick/fast/easy method of raising money.</p> <p>Watch for repetition.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
			<p><b>Venture capital/business angels</b></p> <ul style="list-style-type: none"> <li>• will provide capital when banks think it is too risky</li> <li>• may give advice and support to help improve and/or grow the business</li> </ul> <p><b>Leasing</b></p> <ul style="list-style-type: none"> <li>• this is renting an asset – at the end of the lease agreement, the leaseholder can receive an updated asset</li> <li>• the leaseholder is responsible for servicing and maintenance of the asset</li> <li>• monthly payments can aid budgeting</li> <li>• if the organisation wants to buy the asset at the end of the lease agreement, it can make a balloon payment</li> <li>• the overall cost of the asset will be higher than purchasing it outright</li> </ul> <p><b>Sale of assets</b></p> <ul style="list-style-type: none"> <li>• any unnecessary assets can be sold to raise cash and then leased back, if required</li> </ul> <p><b>Hire purchase</b></p> <ul style="list-style-type: none"> <li>• the cost of buying assets can be spread over a period of time</li> <li>• fixed instalments can aid budgeting</li> </ul>		



Question			Expected response	Max mark	Additional guidance
			<ul style="list-style-type: none"> <li>the overall cost of the asset is increased by the interest payments</li> <li>the asset is not owned by the organisation until the final payment is made</li> </ul> <p><b>Overdraft</b></p> <ul style="list-style-type: none"> <li>allows flexibility, as the organisation can spend more than it has in its account</li> <li>can be pre-arranged if a cash shortfall is expected</li> <li>attracts high interest charges</li> </ul> <p><b>Trade credit</b></p> <ul style="list-style-type: none"> <li>it does not need to pay for goods/raw materials until after they have been received, for example, 30 days later</li> <li>it may be able to sell goods on, before it has paid for them</li> <li>customers may also expect to receive trade credit</li> </ul> <p><b>Debt factoring</b></p> <ul style="list-style-type: none"> <li>allows an organisation to 'sell' debt on, at lower than its face value/the debt is discounted, so the organisation does not receive the full value of the outstanding debt</li> <li>it does not need to 'chase up' debt itself</li> <li>reduces the likelihood of cash flow problems caused by unpaid debts.</li> </ul>		

Question			Expected response	Max mark	Additional guidance
	(b)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• it helps to highlight periods when cash flow problems may occur – which allows the organisation to take corrective action</li> <li>• can be shown to a potential lender – which can then be used to secure borrowing</li> <li>• can be shown to potential investor – who can then see if it is a viable business</li> <li>• it can be used to make comparisons between actual spending and targeted spending – which helps to control costs</li> <li>• it can show periods of surplus cash – which can then be used for capital investment</li> <li>• it can be used to set departments/managers a budget – which gives them a target to focus on</li> <li>• it can be used to aid future financial planning – which can help identify when an overdraft is required.</li> </ul>	5	<p>Candidates must explain at least 2 benefits to gain full marks.</p> <p>Award <b>1 mark</b> for each valid explanation.</p> <p>Award <b>up to 4 marks</b> for any one benefit.</p> <p>Accept any other suitable response.</p>

Question		Expected response			Max mark	Additional guidance
	(c)				4	Award 1 mark for each valid comparison.  Accept any other suitable response.

Question			Expected response	Max mark	Additional guidance
	(d)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• performs 'What if' scenarios/creates IF statements</li> <li>• produces graphs and charts</li> <li>• formulae calculations are carried out instantly and accurately</li> <li>• formulae are amended automatically, when the spreadsheet is amended</li> <li>• formulae can be replicated</li> <li>• editing/amending is simplified</li> <li>• conditionally format data</li> <li>• can secure data with passwords</li> <li>• can use templates for financial statements.</li> </ul>	2	<p>Award <b>1 mark</b> for each valid justification.</p> <p>Award <b>up to 2 marks</b> for any one use.</p> <p>Only award marks for 'quick' and 'easy' if qualified or compared.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
4.	(a)		<p>Responses could include:</p> <ul style="list-style-type: none"> <li>employees are likely to want higher wages than the owners/managers are willing to pay</li> <li>managers want to delay payment for goods bought to improve cash flow, but suppliers want their money as soon as possible</li> <li>customers want delivery of goods as soon as possible, but the managers cannot meet customer expectations</li> <li>owners/managers may need to reorganise the business, but employees may feel this gives them extra responsibility without training or extra reward</li> <li>owners want to maintain control of their business, but managers can become too powerful and influential through their decision making</li> <li>managers may focus on their objectives for financial reward, which may conflict with owners' desire for maximum profit.</li> </ul>	2	<p>Candidates must describe 2 examples of conflict to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Accept any other suitable response.</p>

Question		Expected response	Max mark	Additional guidance
	(b)	<p>Responses could include:</p> <p><b>Organic/internal growth:</b></p> <ul style="list-style-type: none"> <li>• open new outlets</li> <li>• operate in more markets and/or countries</li> <li>• introduce new products</li> <li>• less risky than a takeover</li> <li>• can be financed internally</li> <li>• may be limited by the size of the market</li> </ul> <p><b>External growth/takeover/merger through:</b></p> <p><b>Backward vertical</b></p> <ul style="list-style-type: none"> <li>• when the business takes over its supplier/source of goods and materials</li> <li>• this guarantees the quality and quantity of inputs</li> <li>• it may limit supplies to competitors</li> <li>• cuts out the middleman/adds to profits</li> </ul> <p><b>Forward vertical</b></p> <ul style="list-style-type: none"> <li>• when the business takes over a customer</li> <li>• this guarantees an outlet for its products</li> <li>• cuts out the middleman/adds to profits</li> </ul>	8	<p>Candidates must discuss at least 2 methods to gain full marks.</p> <p>Award <b>1 mark</b> for each valid discussion point.</p> <p>Award <b>up to 7 marks</b> for any one method.</p> <p>Watch for repetition.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance											
			<p><b>Horizontal integration</b></p> <ul style="list-style-type: none"><li>when two businesses at the same stage in the production process join together</li><li>may remove a competitor</li><li>the business may dominate the market</li></ul> <p><b>Diversification/conglomeration</b></p> <ul style="list-style-type: none"><li>where a business moves into an entirely different market</li><li>spreads risk</li><li>new customers may be attracted to the original product</li></ul> <p><b>Lateral</b></p> <ul style="list-style-type: none"><li>where two firms merge which are in a related industry but are not in direct competition (for example, a hairdresser and a beauty therapist).</li></ul>													
	(c)		<table><tr><th>Strategic</th><th rowspan="5">whereas</th><th>Tactical</th></tr><tr><td>long-term decision</td><td>medium-term decision</td></tr><tr><td>set out the objectives</td><td>taken to achieve objectives</td></tr><tr><td>made by senior management</td><td>made by middle management</td></tr><tr><td>high risk</td><td>medium risk</td></tr></table>	Strategic	whereas	Tactical	long-term decision	medium-term decision	set out the objectives	taken to achieve objectives	made by senior management	made by middle management	high risk	medium risk	2	Award <b>1 mark</b> for each valid distinction.
Strategic	whereas	Tactical														
long-term decision		medium-term decision														
set out the objectives		taken to achieve objectives														
made by senior management		made by middle management														
high risk		medium risk														

Question		Expected response	Max mark	Additional guidance
	(d)	<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• the quality and quantity of information available to the manager</li> <li>• the amount of training/experience the manager has had in decision making</li> <li>• the ability and skill of the manager to make decisions</li> <li>• the level of risk the manager is willing to take</li> <li>• lack of finance to carry out the decision</li> <li>• the time available to make the decision</li> <li>• how willing the staff are to cooperate with the decision</li> <li>• lack of equipment/technology to implement the decision</li> <li>• existing company policy may restrict which decisions a manager is allowed to make</li> <li>• a senior management veto of what the manager decides.</li> </ul>	3	<p>Candidates must describe 3 internal constraints to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Accept any other suitable response.</p>



Question			Expected response	Max mark	Additional guidance
5.	(a)		<p>Responses could include:</p> <p><b>People</b></p> <ul style="list-style-type: none"> <li>any member of staff who comes into contact with the customer</li> <li>the organisation needs to create a culture of good customer care</li> <li>the organisation may need to create customer service policies</li> <li>staff are trained in customer care</li> <li>motivated staff are required</li> <li>good after-sales service and advice should be available</li> </ul> <p><b>Process</b></p> <ul style="list-style-type: none"> <li>the systems and procedures that deliver a product or service</li> <li>the experience the customer has when making a purchase</li> <li>the impression left on the customer</li> <li>the organisation must be able to handle complaints</li> <li>contingency planning could be put in place</li> <li>short waiting times</li> <li>user-friendly internet experience</li> <li>quality of information given to customers</li> </ul>	6	<p>Candidates must discuss all 3 elements to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Award up to <b>4 marks</b> for any one element.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
			<b>Physical evidence</b> <ul style="list-style-type: none"> <li>the physical environment experienced by the customer</li> <li>the layout and design of the premises</li> <li>the ambience of the premises</li> <li>the cleanliness of the premises</li> <li>must reflect customer expectations.</li> </ul>		

Question			Expected response	Max mark	Additional guidance
	(b)		<p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• get a bulk buying discount</li> <li>• reduced risk of pilferage</li> <li>• inventory is maintained in appropriate conditions</li> <li>• no space is taken up in departments with storage</li> <li>• specialist staff handle inventory more efficiently</li> <li>• centralised warehousing can be cheaper than using multiple warehouses</li> <li>• centralised warehousing ensures consistent inventory handling procedures</li> <li>• can monitor inventory usage in different departments/sites</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• more time is taken to physically move the inventory from the central warehouse to each department</li> <li>• more admin staff required to deal with the paperwork involved</li> <li>• additional staff increases costs</li> <li>• cost of specialist equipment and storage facilities</li> <li>• may not be reflective of actual inventory usage in each division/branch.</li> </ul>	3	<p>Award <b>1 mark</b> for any valid discussion point.</p> <p>Award <b>up to 3 marks</b> for any one use.</p> <p>Accept any other suitable response.</p>

Question			Expected response	Max mark	Additional guidance
	(c)		<p>Responses should include:</p> <p><b>Skimming</b></p> <ul style="list-style-type: none"> <li>price is set high initially, when no/little competition exists <ul style="list-style-type: none"> <li>appeals to market segments who are keen to own the newest products</li> <li>allows the business to make high profit</li> </ul> </li> <li>when competitors enter the market, the price is lowered</li> </ul> <p><b>Penetration</b></p> <ul style="list-style-type: none"> <li>price is set lower than competitors, to attract customers <ul style="list-style-type: none"> <li>used to encourage customers to switch brands</li> </ul> </li> <li>once customers start buying the product, the price is raised</li> </ul> <p><b>Discrimination</b></p> <ul style="list-style-type: none"> <li>when a business charges different customers different prices for the same product</li> <li>when a business charges different prices at different times/days for the same product <ul style="list-style-type: none"> <li>may be used to sell surplus capacity (eg airline/theatre tickets).</li> </ul> </li> </ul>	6	<p>Candidates must describe all 3 pricing strategies to gain full marks.</p> <p>Award <b>1 mark</b> for each valid description.</p> <p>Award <b>up to 4 marks</b> for any one strategy.</p> <p>Accept any other suitable response.</p>

[END OF SPECIMEN MARKING INSTRUCTIONS]