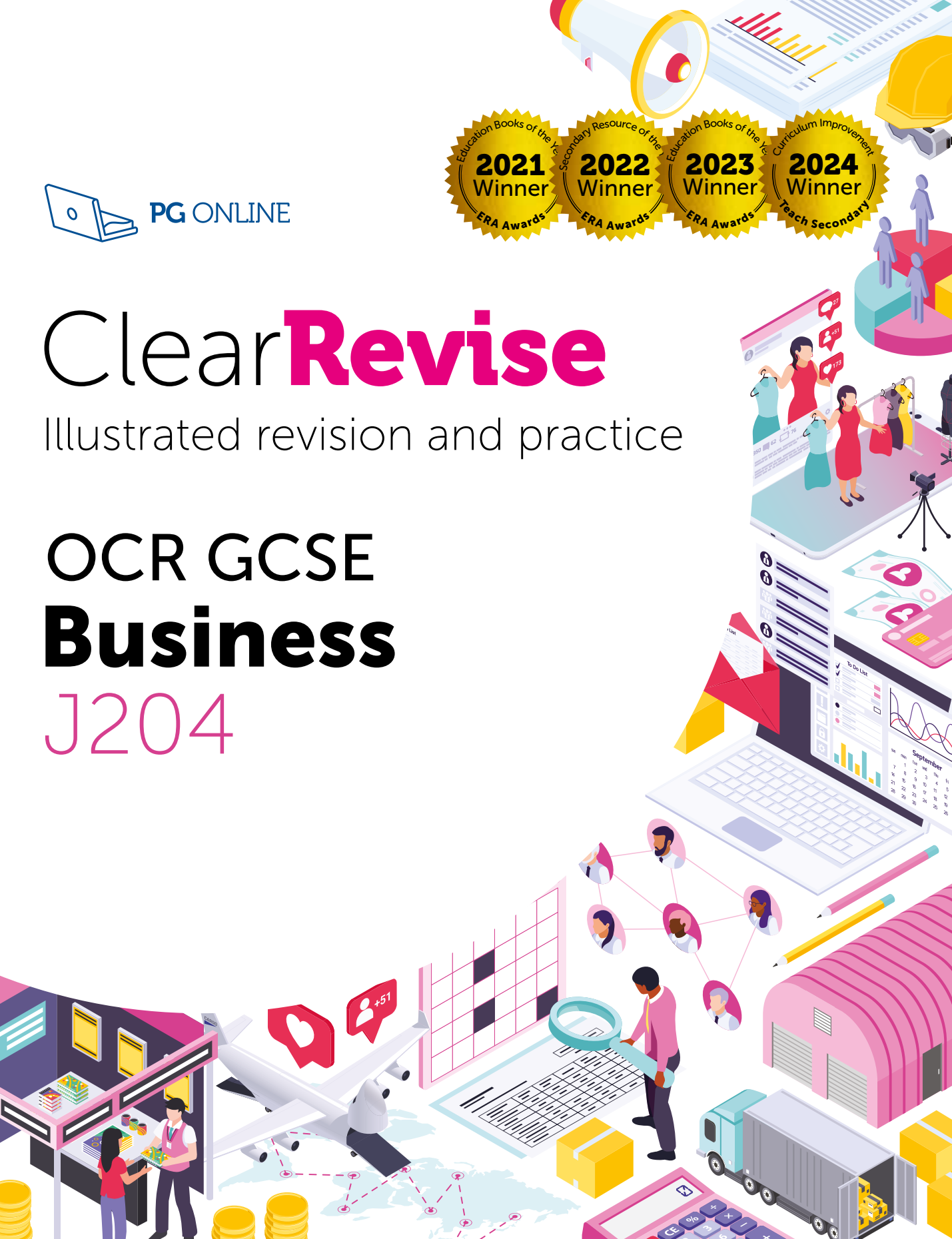




## Illustrated revision and practice

# OCR GCSE **Business** J204



# Clear**Revise**<sup>®</sup>

## OCR GCSE **Business** J204

Illustrated revision and practice

Published by  
PG Online Limited  
The Old Coach House  
35 Main Road  
Tolpuddle  
Dorset  
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United Kingdom

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[www.pgonline.co.uk](http://www.pgonline.co.uk)  
**2024**



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# PREFACE

Absolute clarity! That's the aim.

This is everything you need to ace the examined component in this course and beam with pride. Each topic is laid out in a beautifully illustrated format that is clear, approachable and as concise and simple as possible.

Each section of the specification is clearly indicated to help you cross-reference your revision. The checklist on the contents pages will help you keep track of what you have already worked through and what's left before the big day.

We have included worked exam-style questions with answers for almost every topic. This helps you understand where marks are coming from and to see the theory at work for yourself in an exam situation. There is also a set of exam-style questions at the end of each section for you to practise writing answers for. You can check your answers against those given at the end of the book.

## LEVELS OF LEARNING

Based on the degree to which you are able to truly understand a new topic, we recommend that you work in stages. Start by reading a short explanation of something, then try and recall what you've just read. This has limited effect if you stop there but it aids the next stage. Question everything. Write down your own summary and then complete and mark a related exam-style question. Cover up the answers if necessary but learn from them once you've seen them. Lastly, teach someone else. Explain the topic in a way that they can understand. Have a go at the different practice questions – they offer an insight into how and where marks are awarded.

## ACKNOWLEDGMENTS

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First edition 2024 10 9 8 7 6 5 4 3 2 1  
A catalogue entry for this book is available from the British Library  
ISBN: 978-1-916518-12-4  
Contributor: Paul Clark  
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Printed by Bell & Bain Ltd, Glasgow, UK.



# THE SCIENCE OF REVISION

## Illustrations and words

Research has shown that revising with words and pictures doubles the quality of responses by students.<sup>1</sup> This is known as 'dual-coding' because it provides two ways of fetching the information from our brain. The improvement in responses is particularly apparent in students when they are asked to apply their knowledge to different problems. Recall, application and judgement are all specifically and carefully assessed in public examination questions.

## Retrieval of information

Retrieval practice encourages students to come up with answers to questions.<sup>2</sup> The closer the question is to one you might see in a real examination, the better. Also, the closer the environment in which a student revises is to the 'examination environment', the better. Students who had a test 2–7 days away did 30% better using retrieval practice than students who simply read, or repeatedly reread material. Students who were expected to teach the content to someone else after their revision period did better still.<sup>3</sup> What was found to be most interesting in other studies is that students using retrieval methods and testing for revision were also more resilient to the introduction of stress.<sup>4</sup>

## Ebbinghaus' forgetting curve and spaced learning

Ebbinghaus' 140-year-old study examined the rate at which we forget things over time. The findings still hold true. However, the act of forgetting facts and techniques and relearning them is what cements them into the brain.<sup>6</sup> Spacing out revision is more effective than cramming – we know that, but students should also know that the space between revisiting material should vary depending on how far away the examination is. A cyclical approach is required. An examination 12 months away necessitates revisiting covered material about once a month. A test in 30 days should have topics revisited every 3 days – intervals of roughly a tenth of the time available.<sup>6</sup>

## Summary

Students: the more tests and past questions you do, in an environment as close to examination conditions as possible, the better you are likely to perform on the day. If you prefer to listen to music while you revise, tunes without lyrics will be far less detrimental to your memory and retention. Silence is most effective.<sup>5</sup> If you choose to study with friends, choose carefully – effort is contagious.<sup>7</sup>

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# MARK ALLOCATIONS

Green mark allocations [1] on answers to in-text questions throughout this guide help to indicate where marks are gained within the answers. A bracketed '1' e.g. [1] = one valid point worthy of a mark. In longer answer questions, a mark is given based on the whole response. In these answers, the following marks indicate how marks are awarded. There are often many more points to make than there are marks available so you have more opportunity to max out your answers than you may think.

[K] indicates where a mark is gained for demonstrating **knowledge**. (AO1a)

[U] indicates where **understanding** has been demonstrated. (AO1b)

[APP] indicates where a mark is gained for **application** of knowledge. (AO2)

[AN] indicates where a mark is gained through **analysis**, covering Assessment Objective 3a (AO3a).

[EVAL] indicates where a mark is gained through the use of **evaluation**. (AO3b)

# COMMAND WORDS

## Multiple choice questions

Both Paper 1 and Paper 2 start with a series of 15 multiple choice questions. Each question has a space for you to write the letter (A, B, C or D) of your choice.

## Identify or state

You may be asked to 'identify two....' or to 'State,....' If this is the case, then you only have to demonstrate knowledge. You do not need to develop your answers.

## Calculate

Calculation questions will be worth 2-3 marks, depending on the number of steps you need to do to get to the final answer. You do not get any marks for simply writing the formula unless the question specifically states this. A correct answer will always score full marks, but ensure you show your working out. If your answer is incorrect, you may get some marks for correct workings. If the question asks for 1 or 2 decimal places, make sure you reflect this in your answer, or you will lose a mark.

## Explain

There are four types of 'Explain' questions. They will be either worth 2 or 4 marks.

- The first is a non-contextualised 2-mark Explain question. This type of question will be generic and not linked to a particular business. For this, you will have to make a valid point and then have one relevant linked strand of development. To do this, you need to use clear connectives such as '*therefore*', '*this leads to*', '*because*', '*so*' and '*as a result*'. Try to avoid the use of the word '*also*' as this indicates you are moving onto a second point.
- The second is a 2-mark contextualised Explain question. These questions will follow on from a case study. You need to do everything as mentioned for the first type but now also need to make your answer specific about the particular business in the question.
- The third type is worth 4 marks. These will ask you to 'Explain two....'. This means that you need to do everything for the 2-mark contextualised Explain question twice.
- The final type is simply a variation on a theme. It will be worth 6 marks and will ask you to 'Explain three.....'. Therefore, you have to make three points. Each point must contain application and a linked strand of logical development.

## Analyse

Analyse questions will always be worth 3 marks. There are three assessment objectives covered in these questions. You have to demonstrate knowledge by providing a valid benefit, drawback or impact (or whatever it is you are asked to analyse). You then have to give two linked strands of logical development, one of which must be contextualised to the case study or question to showcase your skills of application. The other will be awarded an analysis mark.





# TOPICS FOR PAPER 1

Business activity, marketing and people

## Information about the paper

### **Specification coverage**

Business activity, marketing and people

### **Assessment**

Written exam: 1 hour 30 minutes

80 marks

All questions are mandatory

50% of the qualification grade

Calculators are permitted in this examination.

### **Assessment overview**

The paper is divided into two sections:

**Section A:** 15 marks

**Section B:** 65 marks

**Section A** consists of 15 multiple choice questions.

Questions in Section B will be based on business contexts given in the paper.

The paper will consist of calculations, multiple-choice, short-answer and extended-writing questions.

# LIABILITY

**Liability** refers to the responsibility of the owners for a business' debts. **Unincorporated** businesses (sole traders and partnerships) will have **unlimited liability**, whereas a company's liability will be limited.

## Unlimited liability

If a business owner has **unlimited liability**, they and the business are seen as the same legal entity. This is known as **unincorporated**. Any debts that the business has will be the total responsibility of the owner. If the business cannot pay the debts off, then the owner may have to sell personal possessions to clear them.

## Limited liability

If a business owner has **limited liability**, they are seen as separate from the business in the eyes of the law. This is called incorporation. Therefore, the debts of the business are not regarded as personal debts of the owner, so their personal possessions are protected and there is a guaranteed limit to their losses. The owner is only liable for the amount of money that they have invested.

Sole traders and partnerships typically have unlimited liability.

What does limited liability mean for business owners? [1]

- A: Owners are not responsible for any business debts.
  - B: Owners are only responsible for any business debts up to the amount they invested.
  - C: Owners are personally responsible for all business debts.
  - D: Owners can claim business losses back from the government.
- B Owners are only responsible for any business debts up to the amount they invested. [1]*



## Companies

### Private limited companies (ltd)

This is an incorporated business which is owned by shareholders. Shares can only be sold privately, with the permission of the other existing shareholders, usually to friends and family.

#### Benefits

- Easier to raise finance by selling shares.
- Owners have **limited liability**. The business is responsible for paying its debts.
- Directors are often also shareholders and can benefit from dividend payments.

#### Drawbacks

- Overall control could be lost.
- The company's accounts and financial information is made public.
- More legal paperwork involved when setting up as it is more complex.
- Potential for disagreement between directors and shareholders.

#### Suitability

It can be suitable for start-ups but also established businesses wanting to grow when:

- More finance is needed.
- Owners seek financial protection because risk is increased.
- Owners wish to keep control of the business.

### Public limited companies (plc)

A PLC is an incorporated business that can access huge financial resources by selling shares on a stock exchange. This is achieved through **flotation**. A public limited company is controlled and managed by a Board of Directors who are voted into the position by shareholders at an **Annual General Meeting (AGM)**.

#### Benefits

- Can raise large amounts of finance by selling shares to the general public.
- Shareholders have **limited liability**.
- Public are more aware of the business and perceive them as more reliable.

#### Drawbacks

- At risk from potential takeovers.
- Potential loss of control, for original owners, after flotation.
- There will be increased media scrutiny into their activities.
- More detailed financial reports and accounts are available for public viewing.

#### Suitability

Suitable for established businesses that:

- Need large amounts of additional finance.
- Want to grow.
- Have a high financial risk.
- Have owners that don't mind losing control.



# THE ROLE OF MARKETING

The marketing function in a business is all about selling the product. In order to do so the business needs to be able to know who their customers are and to understand them, whilst also ensuring that they inform the customers about the products they have available

## The purpose of marketing within business

There are three purposes of marketing:

### Identify and understand customers

**Business need to know who they are selling to:**

- How old is the target market?
- What can they afford?
- Are they male or female?

*This will be looked at in section 2.3*

### Inform customers

**Businesses need to ensure they let potential customers know that their products are available.**

*This will be covered in more detail in section 2.4*

### Increase sales

**This could be through:**

- Having a better quality product
- Having a cheaper price
- Selling products in more outlets
- Utilising promotions

Rebecca works as head of marketing at a technology company selling robotic lawnmowers.

Which **one** of the following is least likely to be part of her role? [1]

- A: Offering sales promotions to increase winter sales
- B: Researching a better design for the product
- C: Social media advertising to homeowners with gardens
- D: Surveys to establish the type of person who might be interested in a mower

2. **B.**<sup>[1]</sup> This is because a design team would focus on product development.



# INTERPRETATION OF MARKET DATA

Businesses will use the information and data that they collect to help inform decision making. This provides details on changes in demand, the business' market share and the target market. It also informs changes in the product and evaluates the effects of promotional strategies.

## Changes in demand

Market data can show whether demand for a particular product is increasing or falling. This will help a business in the following ways:

- It will help make pricing decisions. Does the business need to drop the price because sales have started to fall?
- It will help make decisions on promotional strategies, for example, do they need to advertise more, should more social media be used?
- If the data suggests that demand is declining and it is irreversible, should the business introduce a new product?

## Changes in target market

A product may not be selling enough to a current target market or resonating well enough with those who have made a purchase. People may also find new ways of using a product that the business had not previously thought of. In these instances, the business may choose to change the target market. This will have knock-on effects on the marketing mix.

## Market share

Market share is defined as the percentage of the total sales made in a market by one business. It can be calculated using the formula:

$$\text{Market share} = \frac{\text{Sales of the product}}{\text{Total market sales}} \times 100$$

Market data will help a business to calculate what their market share is and how this has changed over the past few years. This will help trigger strategies to further increase their market share or find ways to reverse a declining market share.

**Accidental inventions:** Play-Doh started out (in white only) as a wallpaper cleaner in the 1930s.

It wasn't until the 1950s that the product started to be used in schools as modelling clay. Different colours were then produced and the target market shifted from adult homeowners to children, parents and schools.



# MOTIVATION AND RETENTION

**Motivation** can be defined as the reason an employee acts or behaves in a certain way. It is their desire or willingness to complete a task. To be successful, a business needs motivated staff who can be enthused or encouraged using financial or non-financial methods. Having motivated employees helps to improve staff **retention** rates.

## Financial methods of motivation

### Pay

This can either be through a salary (a fixed amount paid per year, usually split into monthly payments) or by a wage (an amount usually paid weekly to an employee in return for a set number of hours of work). Paying an employee a high salary can be motivating, but employees are also motivated by the prospect of incremental increases in salary over time. Employees paid by wage may be motivated to work overtime as they will then often receive an enhanced hourly rate for their efforts.

### Bonus

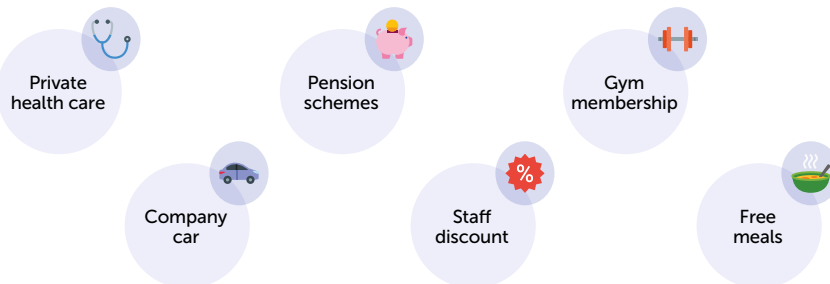
A sum of money paid to an employee for achieving a target. It can also be paid to staff as a result of the business performing well. This motivates employees to help a business succeed as they are more likely to gain financially themselves.

### Profit share

Using this method, employees are financially rewarded as they will receive a share of the business' profit alongside their usual salary or wage. They will be motivated to help the business perform better, as the more profit the business makes, the more they receive.

### Fringe benefits

Fringe benefits: Perks that carry a financial value that are given to employees.



1. Explain **one** way in which fringe benefits motivate employees.

[2]

*Fringe benefits are motivational because they are additional perks given to employees on top of their wage / salary.<sup>[1]</sup> An example is offering an employee discount when buying the business' own products so they feel happier that they bought them for less money.<sup>[1]</sup>*

## Non-financial methods of motivation

### Praise

Employees can feel valued if their efforts are recognised by their line manager and the business' senior management.

### Award schemes

Many businesses provide rewards for good work. This could be anything from vouchers, holidays, or a certificate. Some businesses offer 'Employee of the month' award schemes.

2. Explain how a positive working environment can motivate employees.

[2]

*Employees will feel part of a team,<sup>[1]</sup> therefore they enjoy coming to work and will be happier in their role.<sup>[1]</sup>*

## The importance of employee motivation

Motivation is important for a number of reasons:

- It helps to keep staff turnover low. Staff turnover is the percentage of the workforce who leave over a period of time.
- It can help to lower staff absence rates as employees enjoy coming to work.
- It helps to attract new employees. People will want to come and work for a business that looks after them.
- It can lead to employees providing better customer service, enhancing the business' reputation.
- It can lead to a more committed workforce who want to be involved in helping the business succeed, and as a result they may be more likely to provide new ideas.
- It can help to improve communication within the business.
- It can lead to an increase in the business' productivity.

3. Explain **two** reasons why employee retention is important for a business.

[4]

*Having high retention rates will mean that a business' recruitment costs will be low.<sup>[1]</sup> This means that the business can spend the money more effectively elsewhere, such as motivational packages.<sup>[1]</sup>*

*Retaining employees means that they will become more familiar with the business' customers,<sup>[1]</sup> meaning that they can continue to build relationships which will improve customer loyalty and company reputation.<sup>[1]</sup>*

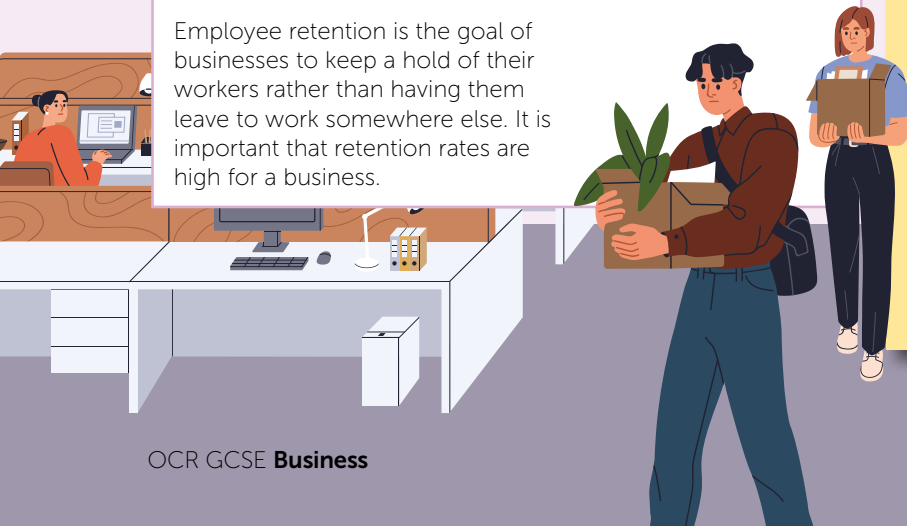
*Saves time for HR and managers<sup>[1]</sup> as they do not have to spend time recruiting.<sup>[1]</sup>*

*It will reduce training costs<sup>[1]</sup> as the business will not have to spend time inducting new employees.<sup>[1]</sup>*

*High retention rates maintains an experienced workforce<sup>[1]</sup> which help a business to operate more efficiently.<sup>[1]</sup>*

## The importance of employee retention

Employee retention is the goal of businesses to keep a hold of their workers rather than having them leave to work somewhere else. It is important that retention rates are high for a business.



# TOPICS FOR PAPER 2

Operations, finance and influences on business

## Information about the paper

### **Specification coverage**

Operations, finance, influences on business, and the interdependent nature of business

The content for this assessment will be drawn from the essential subject content sections 4 to 7 in the specification.

### **Assessment**

Written exam: 1 hour 30 minutes

80 marks

All questions are mandatory

50% of the qualification grade

Calculators are permitted in this examination.

### **Assessment overview**

The paper is divided into two sections:

**Section A:** 15 marks

**Section B:** 65 marks

The paper will consist of calculations, multiple-choice, short-answer and extended-writing questions.

Questions in Sections B will be based on business contexts given in the paper.



# THE IMPORTANCE OF QUALITY

A business should maintain a high standard of quality when manufacturing goods or providing a service as there are many benefits in doing so. The consequences of not maintaining quality can be catastrophic for a business.

## Benefits of having a high-quality product



**Improves the reputation of the business** – By producing a high-quality product, consumers will spread positive messages about the business.



**To gain new customers** – If potential customers read good reviews and hear positive reports about a brand, then they may be more inclined to make a purchase.



**It avoids waste** – If care is taken as the product is produced, then waste can be kept to a minimum, further reducing costs.



**Reduced product returns and recalls** – If product quality is high and it does as a customer expects, then returns will be limited. Not only does this further add to reputational benefits but helps to lower the costs of warehousing, distribution and administration.



**Satisfy customer needs and returning customers** – If goods or services meet customers' expectations, then they are more likely to return to make repeat purchases.



**Allows a higher price to be charged** – Customers will be more willing to pay a higher price if they know they are going to receive a better-quality product or service in return.

Explain **one** risk to a business from producing a product that does not meet customer expectations. [2]

*One risk is that the business may suffer reputational damage.<sup>[1]</sup> This can lead to negative word of mouth affecting future sales.<sup>[1]</sup> Other responses could include: customer complaints, an increase in the number of returned products, or a loss of customers.*



# BREAK-EVEN

A company will **break even** when it sells enough products to generate sufficient revenue to cover its total costs.

## Break-even

A business will break even point when the revenue it receives from selling its products, is equal to the amount that it costs to produce that good or provide that service.

## Calculating break-even

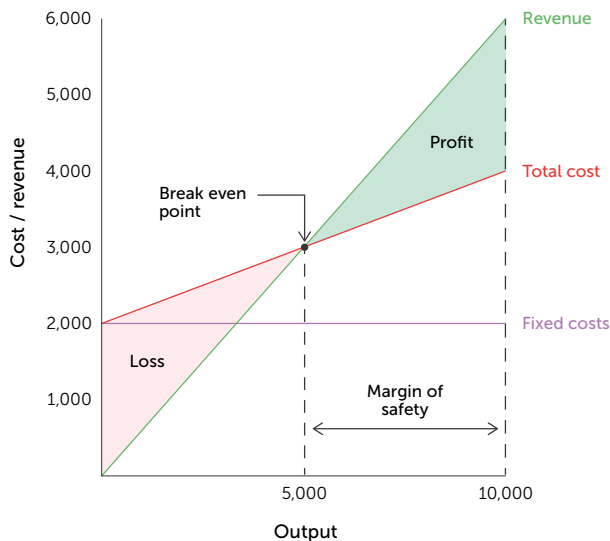
A new business must know how much it needs to sell so that it can ensure that the business is viable. A break-even analysis is used to aid a business in making decisions about what price to charge, how much to produce and to help in managing costs.

It can be calculated using this formula:

$$\text{Break-even} = \frac{\text{fixed costs}}{\text{selling price} - \text{variable cost per unit}}$$

## Interpreting a break-even chart

Businesses can use a break-even chart to find out the following information:



### Break-even point

This is also known as the **break-even level of output**. As you can see in the chart opposite, this particular business needs to sell 5,000 products in order to receive enough revenue to cover its total costs. At this point, profit would be £0; neither a profit nor a loss is made.

### Profit (loss)

Beyond the break-even point, revenue exceeds total costs. Therefore, the business is making a profit at any output level above 5,000. Below the break-even level of output, total costs are greater than revenue, so the business is making a loss.

### Margin of safety

The **margin of safety** is the difference between the actual output of a business and the break-even level of output. If the business in the chart above is producing 10,000 units, then the margin of safety will be 5,000 units (10,000 – 5,000). This means that sales can drop by 5,000 units before the business becomes unprofitable.

## Usefulness of break-even in business decision-making

Break-even analysis informs **marketing** and **planning** decisions.

### Advantages of break-even

Break-even analysis is particularly useful for new start-up businesses as it will allow them to see if their business is viable. This is because they will know how many products they need to sell to cover their costs and can then decide whether that is an achievable amount.

Break-even is used for 'what-if' analysis. A business can change the variables such as the selling price and variable cost per unit, to see what impact that has on the level of break-even. This will also tell decision makers what might happen to profit levels, so they can create a strategy related to price, production levels and costs.

It also forms an important part of the financial planning section of a business plan. An entrepreneur can show potential investors the level of output they need to break-even. As a result, that investor, whether it be the bank or someone else, can make an informed decision as to whether they will provide the required finance to the business.

### Disadvantages of break-even

1. Identify and explain **two** disadvantages to a business of using break-even analysis. [4]

*Break-even assumes all products are sold.<sup>[1]</sup> In reality, some products will be made but left unsold, which would mean a higher break-even point than if they had been sold.<sup>[1]</sup>*

*Variable costs per unit are assumed to remain the same.<sup>[1]</sup> This is not usually the case because a business buying in bulk from a supplier will often receive a discount, which would make the break-even point lower.<sup>[1]</sup>*

*Prices of raw materials may also change over time as new stock is ordered<sup>[1]</sup> which could alter the break-even point.<sup>[1]</sup>*

*Break-even assumes that every product is sold at the same price point.<sup>[1]</sup> An increase in sales price would create a lower break-even point / could cause lower sales.<sup>[1]</sup>*

2. Reanna runs a dog grooming business. She charges £30 per hour. Her fixed costs of running her business are £36 000. Her variable costs are £4 per hour. How many hours of dog grooming will Reanna need to do to start making a profit?  
A: 1059 B: 1385 C: 2340 D: 3060 [1]

B: 1385.

$\text{Break-even} = 36\,000 \div (30 - 4) = 1384.615$

Round up to nearest hour = 1385



# CASE STUDY 6



A small, family-owned business, Crunch Delight Ltd has built a name for itself by creating healthy, baked crisps with unique and adventurous flavours. Their product line has offered options including rosemary and beetroot, truffle and sea salt, and even a tangy pineapple and chili blend. These unusual flavour combinations became the brand's unique selling point (USP), attracting health-conscious consumers and adventurous foodies alike. Over the years, Crunch Delight grew into a stronger brand in the UK, expanding its presence in supermarkets and organic food stores.

However, as demand increased, the company's operating costs in the UK soared. In a controversial move, Crunch Delight decided to shut down its UK operations and shift its manufacturing to Estonia in Eastern Europe, where wages were considerably lower, and production was more cost-effective. The company framed the decision as a necessary step to keep their products affordable and competitive, especially as the market for premium snacks became more saturated. The management claimed that moving to Eastern Europe would allow them to maintain their commitment to health-conscious consumers without compromising the quality of their crisps.

Despite the company's justification, the UK press was quick to criticise the decision, accusing Crunch Delight of prioritising profit over people. Several media outlets published stories condemning the move, stating that it had displaced hundreds of workers and harmed the local economy in areas where the factories once operated. This backlash hurt Crunch Delight's image in the UK, with many loyal customers questioning the brand's values and whether it still stood for the ethical principles it once promoted.

In response to the criticism, Crunch Delight defended their decision to move to Estonia, stating that it wasn't just about cutting costs but also about making the business more sustainable. Estonia's access to renewable energy sources, such as wind and solar power, allowed the company to reduce its carbon footprint and power its new factory with cleaner energy. The company emphasised that sustainability was a core part of their mission, and the move aligned with their long-term goal of reducing environmental impact. Additionally, the high unemployment rate in Estonia provided an opportunity for recruitment, allowing the company to find skilled workers more easily and contribute to the local economy.

Furthermore, relocating to Estonia opened up new avenues for growth within the European market. With excellent transportation links, Crunch Delight could distribute their products across Europe more efficiently, positioning themselves to sell in a wider range of countries. As part of their expansion plan, the company announced that they would tailor the flavours of their crisps to suit the preferences of the local populations, adapting their signature adventurous combinations to reflect regional tastes. However, Crunch Delight acknowledged that this would come with challenges, particularly in navigating the varying laws and regulations on food preparation and labelling across different countries. Despite these issues, they saw this as an exciting opportunity to broaden their appeal and introduce their unique brand of healthy crisps to a larger, more diverse audience.

# EXAMINATION PRACTICE

1. Which **one** of the following is an example of ethical treatment of a workforce? [1]  
A – Allow flexible working  
B – Cut wages in order to save money  
C – Replace employees with robots  
D – Reduce the number of breaks for employees
2. A country is experiencing rising incomes among their population.  
Which of the following actions is most likely, where a business is selling a unique product? [1]  
A – Cut employees  
B – Increase price  
C – Offer discounts  
D – Reduce costs
3. Identify **two** reasons why a multinational might choose to locate in another country. [2]
4. Explain **one** factor that has led to increased globalisation. [2]
5. Explain **one** way a business can behave ethically towards its customers. [2]
6. Explain **one** reason why a business should behave ethically. [2]

**For the following questions, you must refer to the case study on the previous page.**

7. Explain **one** positive and **one** negative impact on the environment from Crunch Delight's decision to relocate to Eastern Europe. [4]
8. Analyse **one** benefit to Crunch Delight from the high levels of unemployment in Estonia. [3]
9. (a) Analyse **one** benefit to Crunch Delight arising from its decision to sell in multiple European countries. [3]  
(b) Analyse **one** drawback to Crunch Delight arising from its decision to sell in multiple European countries. [3]  
(c) Recommend whether it is the right decision for Crunch Delight to sell in multiple European countries. [3]

# THE INTERDEPENDENT NATURE OF BUSINESS

This section is different to sections 1–6. It does not look at new theory, but instead refers to the links between different areas of business across both exam papers that affect decision making, the risks and rewards of business activity and the use of financial information in measuring and understanding business performance and decision making.

## The interdependent nature of business operations

The interdependencies of business functions, such as finance, marketing, operations, and human resources, are crucial for decision-making. Each area relies on others for information and resources.

### How these interdependencies underpin business decision making

To understand how the different functional areas impact on each other, consider the following scenario:

A manufacturing business has decided to expand. One strategy they used to achieve this goal is to heavily advertise their product. The promotional campaign proved to be successful and now the decision of the marketing department has impacted the other functional areas.

**Finance** – The advertising campaign would require a substantial budget. The finance to cover this has to be obtained from an appropriate source. The finance department may need to set increased budgets for the operations department as they may need to increase their productive capacity. They will also need to finance any extra staff that may be required.

**Operations** – The operations department may need to increase their production. This would mean liaising with suppliers to see if they can supply the increased volume of raw materials. Logistics would be impacted as they would have to deliver to more locations.

**Human resources** – The HR department would need to recruit new workers which would be time consuming. Once they have appointed new workers, they would need to train them, which can also be costly and time consuming.



## Impact of risk and reward on business activity

When making decisions, businesses need to consider the impact that potential risks could have on the performance of the business. Risks and rewards are discussed in more detail in **Section 1.1** earlier in this book, however businesses must consider:

- The potential that new rivals could enter the market and affect sales levels, prices that a business can charge and ultimately revenue and profit levels.
- There could be changes in costs, including an increase in wages and materials. Decisions on changes in wage levels will be impacted by both internal and external factors, such as the economic climate. Material costs could be impacted by world shortages, exchange rate changes or problems with transportation.

## Use of financial information in measuring and understanding business performance and decision making

Businesses use financial information to help make decisions. This information can be either past records, such as financial accounts from previous years, or it could be financial predictions for the future such as cash flow forecasts.

Explain **one** drawback to a business from using financial records to make decisions about future business activity. [2]

*Financial records present historical data and there is no guarantee that what happened previously will happen again.<sup>[1]</sup> Therefore, a business may make decisions on production levels assuming sales will continue at their current level which may not be the case.<sup>[1]</sup>*



The final question on Paper 2 will be a 9 mark evaluation question about the interdependent nature of business. This includes a question about:

- How an aspect of a business' activity (e.g. their customer service) could impact on the business' performance.
- How financial information could impact on a business' decision making about its future activities.
- How an aspect of a business' activity (e.g. its manufacturing process) could impact the risks and rewards a business faces.



# EXAMINATION PRACTICE ANSWERS

Mark allocations are indicated by the use of [1].

[K] indicates where a mark is gained for demonstrating **knowledge** (AO1a)

[U] indicates where **understanding** has been demonstrated. (AO1b)

[APP] indicates where a mark is gained for **application** of knowledge. (AO2)

[AN] indicates where a mark is gained through **analysis**, covering Assessment Objective 3a (AO3a)

[EVAL] indicates where a mark is gained through the use of **evaluation**. (AO3b).

## Section 1

1. B. Profit. [1]
2. A. Can raise large amounts of finance through selling shares to the public. [1]
3. Spotting a business opportunity.[1] Developing an idea for a business.[1] Satisfying the needs of consumers.[1] [2]
4. Profits need to be shared amongst the partners.[1] Therefore the owners may receive less income than if they set it up alone.[1] Partners face unlimited liability,[1] which means they are personally responsible for the debts of the business.[1] Partners may not agree on key decisions,[1] which may damage relationships / cause unnecessary delay / detract from the focus of the business.[1] [2]
5. Businesses may be at different stages of development.[1] One business may be starting out and will need to focus on survival, while an established business may be looking to grow.[1] Different business may face different wider market / economic issues, [1] which may benefit some businesses and threaten others.[1] Different products may suit different markets / issues, [1] which may benefit some while threatening the success of others.[1] Owners may have different motivations for running the business, [1] so some may want to maximise profit while others wish to benefit those in the community ahead of any profits.[1] [2]
6. A business' supplier may decide to increase their prices for their products.[1] Therefore the business' costs may increase.[1] A supplier may cease trading / no longer be able to get that material / part,[1] causing a business customer to seek an alternative supplier which may change the design / taste / function of a product.[1] [2]
7. Richard showed that he was a risk-taker.[1] This is because he invested his savings in the fitness centres.[APP] Creativity / determination[1] because he had a clear idea / vision and planned meticulously to make things succeed.[1] Confidence[1] in his own ideas to invest his own money.[1] [2]
8. One risk that they both face is financial loss.[1] This is because Richard invested his savings and Vikram also contributed financially, so these investments could be lost if the fitness centres fail.[APP] Reputational damage[1] may be done if the centres fail as Richard's name is associated with the enterprise.[APP] [2]
9. One benefit is that the owners will have limited liability.[1] This means that Richard and Vikram are seen as separate to the business, so can only lose the amount of their savings that they invested should fitness centres fail.[APP] This means that they face less risk as their personal possessions will not be at risk.[AN] The business will be able to sell shares privately.[1] This would raise further finance for growth [AN] should they need it to acquire another gym. [APP] [3]
10. One reason was so that he could help to convince people to invest in the fitness centres, helping the venture to succeed.[1] This allowed him to obtain a bank loan from the bank.[APP] Therefore Richard had enough cash to set up his first fitness centre.[AN] Thorough planning helps to reduce risk. [1] It considers issues in the future with different strategies for growth with each new gym,[APP] and enabled him to foresee issues before they became a problem.[AN] [3]
11. One reward is self-satisfaction.[1] This is because Richard is a fitness enthusiast and wants to ensure people have an affordable way to stay fit and healthy.[APP] Therefore in having more people use his fitness centres he will have a sense of achievement.[AN] Richard and Vikram may seek financial reward. [1] This is because they will want to earn something back on their initial investments [APP] that is above what they could get with less-risky options. [AN] [3]
12. Customers / local community will be most affected,[1] this is because more customers will have more opportunity to attend fitness classes / there will be more fitness centres in new locations nationwide.[1] [2]
13. Horizontal integration is when Stabler Gyms would merge or takeover another fitness centre.[K] Acquiring a competitor gym would allow Stabler Gyms to increase its market share from the 5% it currently has,[APP] which would increase the number of members that it has already.[U] Thus, allowing the fitness centres to become established nationwide rather than just in the region that they currently operate in.[APP] This would increase revenue from the increased membership.[AN] However, taking over another fitness centre may not be beneficial for Stabler Gyms because there is a lot of risk involved.[U] This is because Richard has identified that there may be cultural clashes and integration issues. [APP] This may mean that they lose their reputation for being an affordable option for people to stay fit and healthy.[AN] I think they should grow through horizontal integration.[EVAL] Richard and Vikram's business does not have a presence outside their region and merging with, or taking over a fitness club that has centres in other areas is the quickest way that they can increase their market share nationally.[EVAL] This does depend on how much they will have to pay to take over their rival, but as long as it is a reasonable price then it will be worth it.[EVAL] [9]



# FORMULAE

<b>Revenue</b>	$\text{Selling price} \times \text{Number of units sold}$
<b>Total variable costs</b>	$\text{Variable cost per unit} \times \text{Number of units sold}$
<b>Total costs</b>	$\text{Fixed costs} + \text{Variable costs}$
<b>Profit</b>	$\text{Revenue} - \text{Total costs}$
<b>Cost per unit</b>	$\text{Total costs} \div \text{Number of units sold}$
<b>Margin of safety</b>	$\text{Actual output} - \text{Break even output}$
<b>Net cash flow</b>	$\text{Total receipts} - \text{Total payments}$
<b>Closing balance</b>	$\text{Opening balance} + \text{Net cash flow}$
<b>Total assets</b>	$\text{Non-current assets} + \text{Current assets}$
<b>Net assets</b>	$(\text{Non-current assets} + \text{Current assets}) - (\text{Current liabilities} + \text{Non-current liabilities})$
<b>Gross profit</b>	$\text{Revenue} - \text{Cost of sales}$
<b>Operating profit</b>	$\text{Gross profit} - \text{Overheads}$
<b>Net profit</b>	$\text{Operating profit} - \text{Tax and interest}$
<b>Gross profit margin</b>	$(\text{Gross profit} \div \text{Revenue}) \times 100$
<b>Net profit margin</b>	$(\text{Net profit} \div \text{Revenue}) \times 100$
<b>ARR</b>	$(\text{Average annual profit} \div \text{cost of investment}) \times 100$
<b>Percentage change</b>	$(\text{Change in figures} \div \text{Original figure}) \times 100$
<b>Average</b>	$\text{Total of all the individual values} \div \text{The number of values in the set}$



You may have to demonstrate your basic quantitative skills as well as potentially being asked to use business calculations. This could include calculating the percentage change between two figures or calculating the average of a set of data.

You will not be provided with formulae in the exam.

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# EXAMINATION TIPS

When you practice exam questions, work out your approximate grade using the following table. This table has been produced using a rounded average of past examination series for this GCSE. Be aware that boundaries vary by a few percentage points either side of those shown.

Grade	9	8	7	6	5	4	3	2	1
Boundary	74%	69%	63%	56%	49%	42%	31%	20%	8%

1. Read all the answers in multiple choice questions before you commit, even if you think the first one you read is the answer. Double check the question to ensure you have interpreted it correctly. Another tip is to disregard the answers that you know are clearly wrong and then assess then ones that remain before making your choice.
2. Read the questions carefully as some students give answers to questions they think are appearing rather than the actual question.
3. In calculation questions, one or two marks may be awarded for workings out, even if the final answer is incorrect. Make sure to show your working in case you make a mistake, and the answer is incorrect. Workings also help you check your own answers at the end of an exam.
4. At least 10% of the total marks for the qualification will reward the use of quantitative skills; make sure you have learned the formulae. You may also be examined in your ability to calculate percentages, percentage changes and averages, so ensure you have practised these.
5. Try to not repeat the question in the first line of your response. It will not score you any marks and simply wastes your time. Avoid losing marks as a result of not finishing the paper.
6. When explaining your points, use clear connectives to show that you are developing the point you have made and not moving onto a separate point. These connectives include; *'thus'*, *'therefore'*, *'this means that'*, *'this leads to'*, *'because'* and *'as a consequence'*. This demonstrates your skills of analysis which are assessed in all longer written questions.
7. Ensure that you include application in answers that are specific about the business in the case study. Many students forget this and throw away easy marks that could be the difference between grades.
8. All questions are marked according to their Assessment Objectives. Each question starts with a command word. Make sure you fully understand what each command word requires you to do. Reading the command words at the start of this book will help you with this.

**Good luck!**

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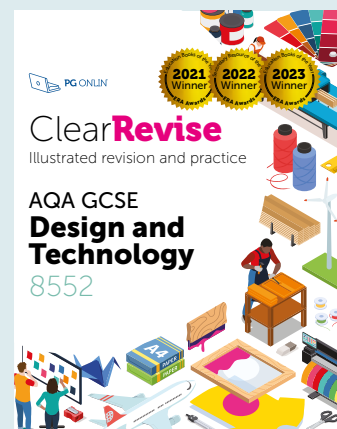
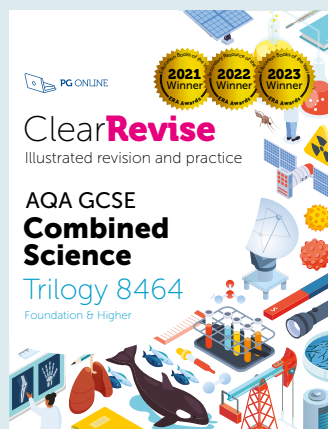
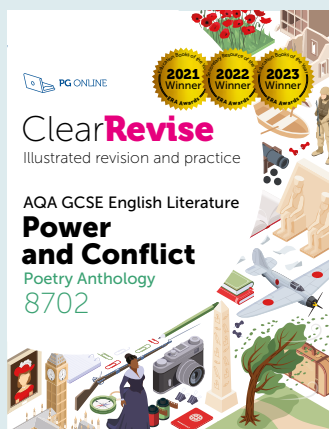
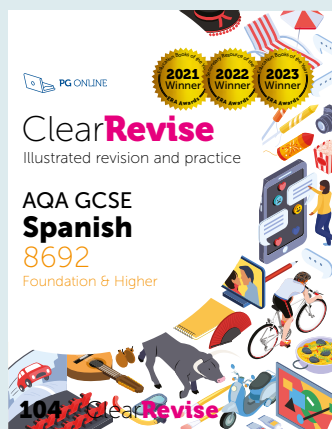
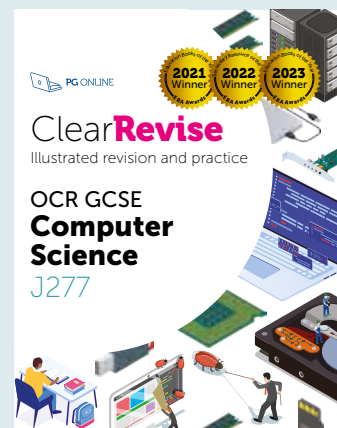
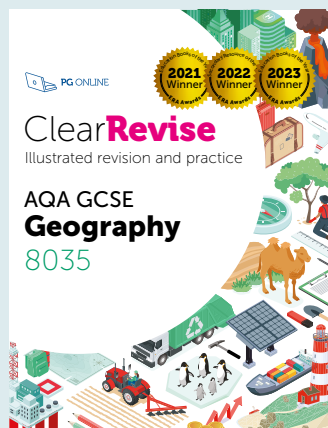
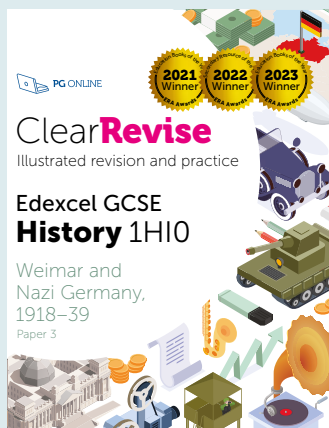
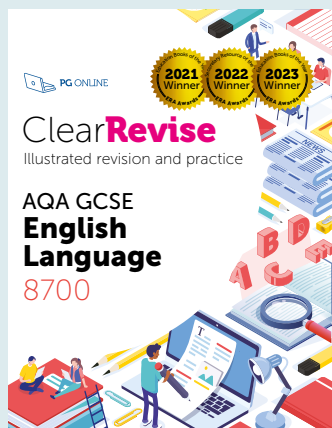
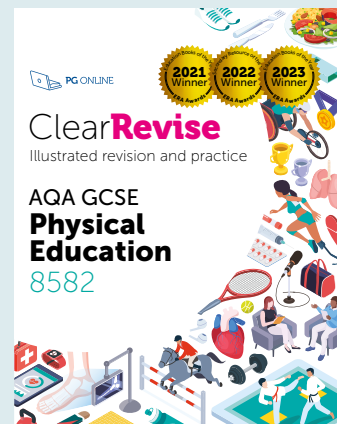
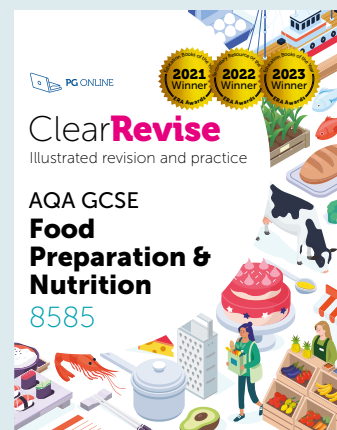
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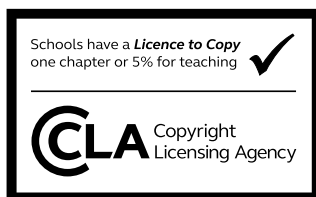
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