

Improving cash flow

Managing cash flow

FINANCIAL MANAGEMENT is about changing monetary variables such as cash flows to achieve financial objectives such as improved cash flow.



Speed it up / increase

Slow it down / reduce

Why is cash important?

A business can still be profitable but run out of cash. If a business's outflows are greater than its inflows (or the outflows occur at a faster rate) then it could run out of cash and trading will cease.

Improving cash outflows

- Delay paying invoices.
- Leasing rather than buying.
- Reduce stock orders.
- Improve credit terms with suppliers.
- Use cheaper suppliers.

Improving cash inflows

- Increasing sales revenue.
- De-stocking.
- Reduce credit terms with customers.
- Encourage customers to pay early (incentives).
- Use short-term sources of finance, e.g. overdrafts and short-term loans.

Worked example

1 Identify **two** possible ways Lidl could improve its cash flow. (2 marks)

- 1 Lease rather than buy assets.
- 2 De-stocking.

Other methods might be reducing debtors' periods, negotiating longer trade credit periods, increasing sales revenue, taking out a loan and ordering fewer materials / groceries.

2 Explain **one** reason why strong cash flow is important to a supermarket such as Lidl. (3 marks)

Lidl requires a strong cash flow as it wants to expand the number of stores. With a strong cash flow Lidl is less likely to default on payments and therefore be able to cover any costs associated with the expansion.

You must make reference to the supermarket / food context.

Now try this

1 Which of the following is a cash inflow?

Select **one** answer.

- A Payments to suppliers
- B Purchasing assets
- C Longer credit terms for customers
- D Taking out a bank loan

2 Identify **two** reasons why a business might want to establish more favourable credit terms with suppliers.



(1 mark)



(2 marks)

Improving profit

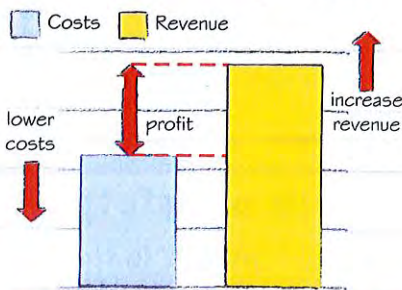
Improving profit is not easy

Techniques to raise revenue or cut costs can affect the performance of the business and in the long-term this could reduce profits. For example:

- Cutting material costs \Rightarrow lower quality products
- Cutting labour costs \Rightarrow lower motivation of workforce
- Cutting investment \Rightarrow damages long-term competitiveness
- Improve products \Rightarrow expensive development costs
- Increase prices \Rightarrow customers switch to competitors' products

Improving profit

To improve profits a business can focus on two areas: increasing revenue or lowering costs.



Increasing revenues

$$\text{NUMBER OF PRODUCTS SOLD} \times \text{AVERAGE PRICE} = \text{TOTAL REVENUE}$$

A business could increase revenues through:

- improved marketing
- better products
- increasing its selling price.

Any business increasing its price has to be very careful. The impact an increase in price has on revenue depends on how sensitive demand is to a change in price.

Cutting costs

$$\text{FIXED COSTS} + \text{VARIABLE COSTS} = \text{TOTAL COSTS}$$

A business could reduce its costs by:

- cutting costs of raw materials, labour or research and development costs
- cutting its marketing.

Worked example



Outline **one** method a business might use to increase its profits. (3 marks)

A business could increase advertising. This could lead to greater awareness and interest in their products and therefore more revenue through sales.

EXAM ALERT!

Fewer than one in four students got all three marks for this question. The command word here is **outline**. You need to identify a method of increasing profit and then make two points in relation to the method identified.

This was a real exam question that a lot of students struggled with – be prepared!

ResultsPlus

Now try this

- 1 Identify **one** problem a business might face if it made a loss. (1 mark)

Jason and Balvir are setting up a new restaurant business in London. Jason believes that he should charge a price of £35 for the set menu. Balvir thinks £30 would be a more appropriate price.

- 2 In your opinion, which price would be more likely to help the business to survive the first year? Justify your answer. (8 marks)

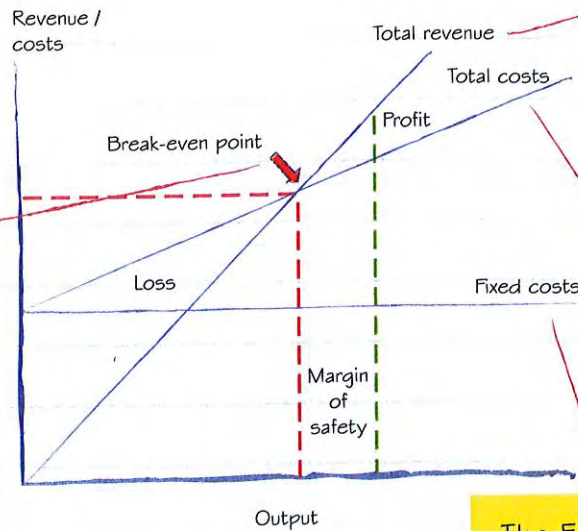


Break-even charts

VARIABLE COSTS, e.g. materials, change directly with the number of products made.

The point on the graph where total costs and revenue meet is the **BREAK-EVEN POINT**.

When **TOTAL REVENUE** is above the break-even point the business makes a **PROFIT**. Below it, it makes a **LOSS**.



TOTAL REVENUE is the amount of money earned by a business from selling products. It increases directly with the number of products sold.

TOTAL COSTS are the sum of all the costs at any level of output.

The **FIXED COSTS** line is horizontal. Fixed costs, e.g. rent, do not change at any level of output.

Formulas to know

Total revenue = quantity sold × average price

Total costs = fixed cost + variable cost

Break even = fixed costs ÷ contribution

CONTRIBUTION is a price per item – variable cost per item.

The margin of safety

The **MARGIN OF SAFETY** is the amount of output between the actual level of output where profit is being made and the break-even level of output. This is how much production could fall before the business starts to make a loss.

Worked example



Sony's fixed costs for the PlayStation 3 are £2 400 000 and variable costs are £140 per console.

Calculate the break-even point when the PlayStation 3 was priced at £300. Show your working and the formula used. **(3 marks)**

Break even = Total fixed costs ÷ Price – variable cost per item.

Break even = £2 400 000 ÷ £300 – £140

Break even = 15 000 consoles

Make sure you:

- show a correct formula
- show accurate workings
- calculate the correct answer.

Now try this



1 What is meant by the term 'break-even point'? **(2 marks)**

Sony's fixed costs for the PlayStation 3 are £2 400 000 and variable costs are £140 per console.

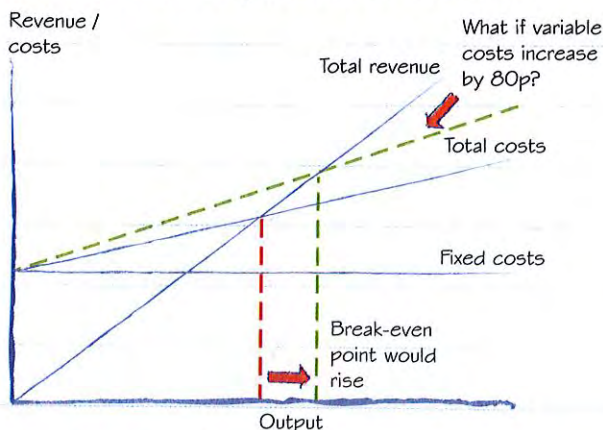
2 Calculate the level of profit or loss Sony would make if it sold 20 000 PlayStation 3 consoles at £300 each. **(3 marks)**



Break-even analysis

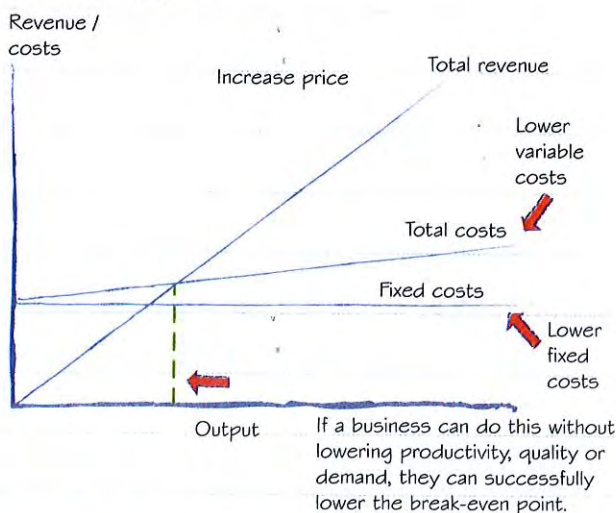
Break-even analysis is a useful tool to help a business make decisions and set targets, and plan for the future.

Break-even analysis is a useful tool for answering 'what if?' questions such as: what would be the impact of an increase in variable costs on profit? Any fall in fixed or variable costs is likely to lower the break-even point. An increase in price will also lower the number of units required to break even.



Lowering the break-even point

Break-even analysis can identify strategies for lowering the break-even point and increasing profit.



Caution! The concept of break-even assumes that a business will sell all the products it makes. In reality, if a business increases price it will lower the break-even point, but this might deter customers from buying the more expensive product.

Using break-even analysis

A business might use break-even when:

- understanding the past (were past decisions on price correct?)
- setting and achieving production targets
- launching a new product
- starting a new business
- developing a business plan.

Worked example

target
B-A

Explain the relevance of margin of safety to Jason and Balvir's restaurant business. (3 marks)

Jason and Balvir's restaurant needs to have a considerable margin of safety because sales could easily fall in a competitive market like the restaurant market. Falling below the margin of safety would lead to a loss and therefore the business could struggle to survive.

This answer gives a reason why the margin of safety is important to the business. Two logical chains of explanation are developed in context by referring to the 'competitive restaurant market'.

Now try this

target
C-B

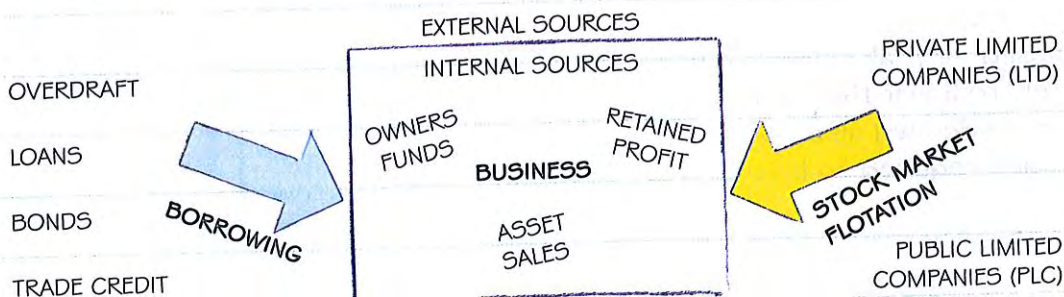
A business is using a break-even chart to examine the effect of a reduction in the price of its product.

- 1 Identify one problem a business may face as a result of reducing the price. (1 mark)
- 2 Explain how the problem you have identified in question 1 would affect the business. (3 marks)

Financing growth

A business can use INTERNAL (from within the business) or EXTERNAL (from outside the business) sources of funds to finance growth.

How can a business finance growth?



Comparing sources of finance

- **RISK.** Selling shares may mean owners lose control, or cash-flow problems may result from meeting loan-repayment terms.
- **COST.** The cost of borrowing varies across different sources.
- **AVAILABILITY.** Some sources, such as loans or share capital, might not be accessible.

Questions to consider

When choosing sources of finance a business should consider:

- 1 Is it a short-term or long-term requirement?
- 2 How much finance is required?
- 3 If we borrow it how much will it cost (interest rate %)?
- 4 What sources are available to our business?
- 5 What level of debt can we manage?

Worked example

target D-C

Explain one disadvantage to the business of borrowing money from a bank to finance growth. (3 marks)

If a business borrows money from a bank it has to repay the loan on a fixed-term basis with interest. A business could then struggle to make these regular payments and this could lead to cash-flow problems.

EXAM ALERT!

Fewer than one in twenty students got all three marks for this question. This student has given a clear drawback of using a loan to finance growth. They have then developed two logical chains of argument identifying the knock-on effect of this: the struggle to make payments and cash-flow problems. Make sure your answer refers to **borrowing money from a bank**.

This was a real exam question that a lot of students struggled with – be prepared!

ResultsPlus

Now try this

target G-F

target C-B

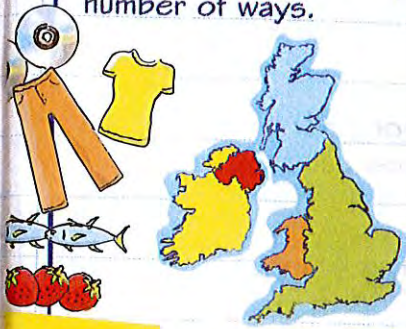
- 1 Identify one internal source of finance that a business might use to expand. (1 mark)
- 2 Explain one benefit to a business of the internal source of finance identified in question 1. (3 marks)

Organisational structure

Organisational structure is the way in which a business is structured to achieve its objectives. This is normally through a HIERARCHY. A hierarchy is a structure of different levels of authority in a business organisation, one on top of the other.

Organisational structure

A business can be organised in a number of ways.



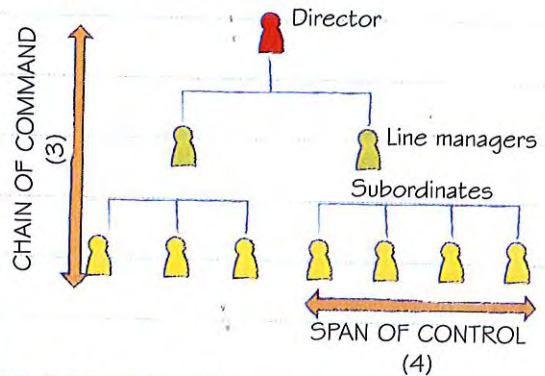
Product divisions

Regional divisions

Functional areas such as marketing or finance

Organisation charts

Organisational structures can be shown through organisation charts.



LINE MANAGERS can pass on authority to their SUBORDINATES through DELEGATION.

Centralised or decentralised?

- Centralised decisions are made by senior managers (normally at head office).
- Decentralised decisions are delegated to regional employees at local stores and branches.

Centralised	Decentralised
Increased control and standardisation	Decisions devolved to branches or divisions that may know their local customers better
Decisions can be slow	Loss of control

Size

As businesses expand they will naturally employ more people, increasing the CHAIN OF COMMAND and SPAN OF CONTROL. The size and structure of an organisation can have an impact on communication, control and flexibility of a business.

A business can DOWNSIZE (reduce size) or DELAYER (reduce the number of layers in the hierarchy) to:

- reduce costs
- improve efficiency
- improve communication.

Worked example

target B-A

Explain one reason why a business might choose to delayer the organisation. (3 marks)

Delayering can reduce costs and unnecessary employees. As a result the organisation could operate more efficiently and this could lead to increased profitability.

You need to give a clear benefit of delayering and then develop two arguments about the knock-on effect of this (such as operate more efficiently and increase profitability).

Now try this

target D-C

1 What is meant by the term 'empowerment'? (2 marks)

target C-B

2 Explain one drawback of a business having a wide span of control. (3 marks)

Motivation theory

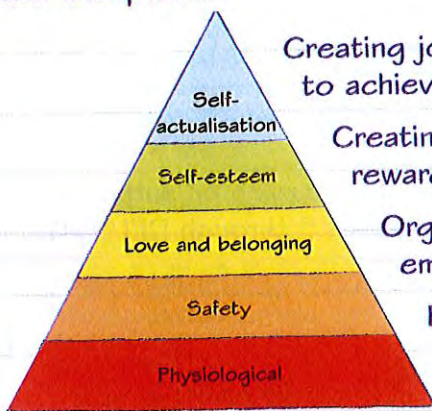
A motivated workforce

Motivation can lead to:

- a hard-working and flexible workforce, that is willing to 'go the extra mile' for the business
- greater commitment to the organisation
- less time off with illness
- improved customer service
- improved communication within the business.

Maslow's hierarchy of needs

Maslow suggested that people are motivated by five needs. In theory, people are driven to meet these needs in order, starting with physiological needs. How can they be used in the workplace?



Creating job opportunities, promotion and training to allow employees to achieve their potential.

Creating promotion opportunities, empowering employees, using rewards to recognise the achievements of employees.

Organising the workforce into teams, creating opportunities for employees to socialise.

Ensuring long-term progression and job security.

Providing a clean and safe working environment and well-paid jobs.

Worked example



Sony's PlayStation 3 console has struggled against strong competition from Nintendo's Wii. Sony expects to make a loss of over £680 million in 2009. To combat this Sony plans to cut 8000 jobs and close several factories.

Assess the impact of factory closures on the motivation of the remaining Sony employees. (8 marks)

The job losses at Sony are likely to reduce the motivation of employees, as many friendships will be affected. This could impact on employees' love-and-belonging needs. Further, employees' safety needs could be compromised as those that remain may doubt their job security. On the other hand, with fewer employees, there may be opportunities for promotion. This could help employees meet their higher-order needs. Ultimately...

In this extract the student has considered two different perspectives and used motivation theory to answer the question. The student clearly understands Maslow's hierarchy of needs and has used the theory to answer the question. The evaluation effectively uses the 'it depends' rule to show that other issues could affect motivation.

This is an extract from a student answer.

Now try this



- 1 Identify three factors that could improve the motivation of workers in a business. (3 marks)
- 2 Explain one benefit to a business of improved worker motivation. (3 marks)



Communication

The communication process

For communication to be effective:

- the **SENDER** has to choose an appropriate **MEDIUM** to reach the **RECEIVER**
- **FEEDBACK** should also be available to ensure the communication has been successful.

INSUFFICIENT or **EXCESSIVE** communication can have an impact on:

- employee motivation
- customer service
- the number of mistakes made
- the understanding of employees
- speed and implementation of decisions
- the image / brand of the business (through advertising).

Types of communication



FORMAL COMMUNICATION is approved by the organisation. It lays down rules of communication within a business.



INFORMAL COMMUNICATION (also known as 'the grapevine') is also used in business, such as gossip. It can get in the way of effective communication.

Barriers to effective communication

- Using inappropriate mediums or email system failure.
- Being angry or tired.
- Cultural differences.
- Use of jargon. This depends on the skill or knowledge of the sender or receiver.

Worked example



Affinity is a small publishing company that produces guide books for walks. Using your knowledge of business, assess the importance of good communication to a company such as Affinity. **(10 marks)**

Poor communication could lead to lack of control and motivation of the workforce. If the company is expanding, it is likely to find communication difficult as it grows and new employees are introduced... Without effective formal communication channels sales could fall and this is a threat to the future of the business. This is perhaps more important than the problems of remuneration and motivation... The importance of communication at Affinity may depend on ...

This is an extract from a student answer.

EXAM ALERT!

Only three in ten students scored more than four marks for this question. You need to assess the importance of good communication in the small business context of Affinity. To do this you should discuss at least two reasons using the appropriate business terminology, show balance in your answer, make a judgement and give clear justification for your judgement.

This was a real exam question that a lot of students struggled with – be prepared!

ResultsPlus

Now try this

- 1 Identify **two** barriers to communication in a business. **(2 marks)**
- 2 Describe how **one** of these barriers can affect the communication process. **(3 marks)**



Remuneration

REMUNERATION is the payments system adopted by a business to pay and reward employees.

Time-based systems	Salaries	Results-based systems (suitable where output or success can be measured)	Fringe benefits
Wages for part-time or full-time workers	For non-manual jobs	Piece rates	Company car
Overtime	For professional workers	Commission	Healthcare
		Bonus schemes	Pension schemes
			Company discounts

Types of worker

- Part-time workers
- Full-time workers
- Temporary workers
- Freelance workers (self-employed)
- Manual workers (Blue collar)
- Non-manual (White collar)

Different types of employees will require different types of payment systems to ensure they are motivated and paid fairly.

A business will often use a variety of remuneration methods to motivate and get the best out of its employees. Think what methods could be combined for best effect.

Choosing a payment system

The following things can influence the choice of payment system:

- Nature of the job – a piece-rate system might not fit the job of a secretary.
- Cost – a business will choose the most cost-effective option.
- Motivation – pay, as we have seen, is closely linked to employee motivation.
- Flexibility – a business might pay a one-off fee to a consultant so that they do not have to pay them over a long period.

Different payment systems motivate workers in different ways. For example, a commission system will motivate sales staff to sell more. Choosing the right payment system will maximise the output of workers. The wrong system could waste money.

Worked example

target D-C

Identify two other methods of remuneration, apart from salary and payment by the hour, that a business could use to reward employees. (2 marks)

- 1 Piece rate
- 2 Commission

EXAM ALERT!

Fewer than six in ten students got both marks for this question. Other possible answers include:

- fringe benefits (extra holiday, company car)
- shares in the company.

Remember that remuneration is a payments system so promotion is not a method of remuneration.

This was a real exam question that a lot of students struggled with – be prepared!

ResultsPlus

Now try this

- 1 Explain one benefit to a business of rewarding workers using a 'piece rate' method of payment. (3 marks)
- 2 Discuss the importance of increasing wages as a method of motivating workers employed in low-skilled industries. (6 marks)

target B-A

target C-B

Ethics in business

Should a business:

- supply firms that are not ethical
- focus on the lowest costs or provide the best value to customers
- replenish the resources it uses / recycle
- sell products that damage customers' health
- do more for the local community other than providing jobs
- pay the lowest price possible to suppliers
- only use ethical suppliers?

Is paying the minimum wage fair?

Is it right to collaborate with competitors to keep prices high?

How much waste should it produce and how should it dispose of waste safely?

Profits or ethics?

A **TRADE-OFF** is when something is given up in order to gain or achieve something else. Is there a trade-off between profits and ethical behaviour?

Is this correct? Acting ethically can lower business profits. Paying higher wages, recycling and only using ethical suppliers is likely to raise costs and lower profits.

Or is this? Acting ethically can be appealing to customers and can motivate employees. This may lead to higher productivity and more sales, which will balance the cost of ethical policies.

Pressure groups

PRESSURE GROUPS are organisations that try to get businesses to change what they are doing. Pressure groups focus on issues such as animal rights, workers' rights, the environment and world poverty. Pressure groups can cause bad publicity for businesses that act unethically, which can damage their reputation.

Pressure group activity

Pressure group methods include lobbying, protests, working with businesses, refusing to work with businesses and boycotting products.



Worked example

target
C-B

Explain **one** way in which a business such as Tesco might be affected by a successful pressure-group campaign. **(3 marks)**

A pressure-group campaign could show Tesco in a negative light and therefore damage the reputation or brand of the company. As a result, this could cost Tesco a lot of money and effort trying to rebuild their brand image.

EXAM ALERT!

Fewer than one in four students got all three marks for this answer. You need to **explain** how a company such as Tesco is affected by a pressure group.

This was a real exam question that a lot of students struggled with – **be prepared!**

ResultsPlus

Now try this

target
E-D

1 Identify **one** method a pressure group could use to persuade a business to act responsibly. **(1 mark)**

2 Identify **two** advantages to a business such as Tesco acting ethically. **(2 marks)**

target
D-C

Environmental issues

Most business operations will have an impact on the ENVIRONMENT in the short-term and long-term. All businesses have to manage this in order to achieve long-term success.

Environmental effects

Short-term effects	Long-term effects
Traffic congestion through transport and deliveries	Climate change
Air, noise and water pollution through manufacturing and industry	Depletion of land, food and natural resources

The environmental impact of a business is closely linked to its growth. As businesses expand they will normally have a bigger impact on the environment.

Recycling is one way of reducing the environmental impact of business.

Other ways include:

- use of renewable energy
- replenishment and conservation of natural resources
- bio-degradable packaging
- reduction in food miles
- social enterprise.



Business opportunities

As consumers are becoming more environmentally aware, there is an opportunity for businesses to differentiate their products to meet customer needs and make them 'greener', e.g. the development of hybrid cars. There are also growing opportunities for businesses in 'green' industries, such as energy conservation and solar power.

Worked example



In response to the work of the WWF, retailers of tuna could respond in one of the following two ways: option 1: do nothing, or option 2: sell tuna caught only in an environmentally friendly way.

In your opinion which **one** of these two options should retailers adopt, and why? **(6 marks)**

...Overall, it may depend on what other competitors are doing. If this becomes standard practice across the industry, all retailers will have to do this. Option 2 is the better option because it will improve sales in the long-term, counteracting any cost of switching.

In this question you need to:

- analyse an argument for option 1 and another for option 2, **OR**
- give advantages for one and a disadvantage for another, or the benefits of just one option.

The conclusion in this extract makes good use of the 'it depends' rule. An effective judgement has been made explaining why option 2 is better than option 1.

This is an extract from a student answer

Now try this

- 1 Identify two impacts a business might have on the environment. **(2 marks)**
- 2 Explain one way that a business can limit the impact it has on the environment. **(3 marks)**



Economic issues affecting international trade

Factors influencing trade

There is a range of factors that influence opportunities for international trade:

- How developed each country is (including income, wages and the quality and technology of products).
- Government regulations on imports and exports (including import protection, QUOTAS and export SUBSIDIES).

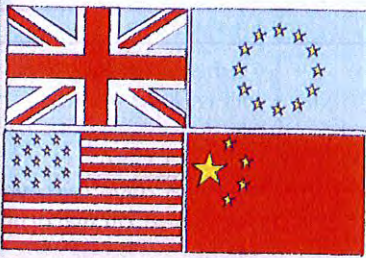
Developing countries and opportunities for UK businesses

- Lower costs of production in developing countries.
- Products cheaper when bought from abroad and then sold in the UK.
- The import of cheap natural resources.
- Increased demand from foreign markets as countries develop.

Developing countries may also be a threat to UK businesses, i.e. if the UK buys cheap imports, then UK businesses may suffer.

Policies affecting international trade

Governments can encourage international trade by supporting exports, or can restrict imports in order to protect their home markets.



- Tariffs and customs duties tax imports and make them more expensive.
- Quotas put a limit on the number of imports.
- An export subsidy will reduce the price of exports and encourage exporting firms.
- Whether importing or exporting UK businesses may suffer or benefit from these policies.

Worked example



The UK has recently seen a significant rise in international trade with India due to economic developments and a rise in average incomes.

State one advantage and one disadvantage to a growth in international trade with India. (8 marks)

Advantage:

Explanation:

Disadvantage: Increased competition.

Explanation: As the Indian economy develops, their industries will become more competitive. This could lead to Indian firms entering the UK market and therefore reducing the market share and sales of UK firms who sell to UK consumers.

When answering this type of question you need to:

- give one advantage **and** one disadvantage
- give an explanation of **each**, with three clear logical chains of development.

This is an extract from a student answer.

Now try this



- 1 What is meant by the term 'tariff'? (2 marks)

- 2 What is meant by the term 'export subsidy'? (2 marks)



Government and the EU

The UK government and EU laws govern the way businesses in the UK operate, trade and deal with customers. Government intervention aims to encourage competition, help businesses run efficiently and protect consumers and employees.

EU regulations

Government and EU regulations include:

- accounting regulations
- the Trade Descriptions Act
- health and safety laws
- the minimum wage
- maternity and paternity rights.

Businesses will often take measures to avoid government intervention. For example:

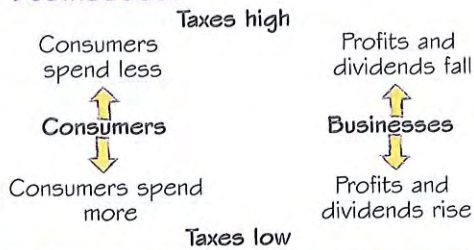
- moving to a country such as Ireland, where corporation tax is lower
- producing products in countries with a lower minimum wage
- selling products in countries with relaxed health and safety laws.

Taxation

Examples of government taxation include:

- Value Added Tax (VAT)
- Corporation Tax
- Income Tax
- National Insurance (NI)

Taxation can affect consumers and businesses.



Regulations

Different regulations have benefits and drawbacks for business. The short-term impact of government regulation on businesses is to increase costs. In the long-term it should make them more competitive and ethical.

	Benefits	Drawbacks
Minimum wage	Small businesses are able to compete with big businesses who might force down wage rates	Higher costs of labour will reduce profits
Maternity and paternity rights	Better relationships with employees and work-life balance	Working days lost while employee on maternity / paternity leave
Health and safety regulations	Fewer work-related accidents and injuries	Costs of health and safety regulations can hinder productivity

Worked example

Using your knowledge of business, assess whether it is right for the government to increase the national minimum wage to £5.80 per hour. (10 marks)



...The extent to which increasing the minimum wage has a positive or negative impact depends on the current level of taxation. If taxes are already high it will have little impact on workers and put further pressure on businesses. Higher wages are ultimately a good thing because it will improve the fortunes of workers and this will then boost demand for businesses.

EXAM ALERT!

Fewer than one in ten students scored between eight and ten marks for this question. The answer should contain an analysis of the positive and negative impact on UK businesses and their workers.

This was a real exam question that a lot of students struggled with – be prepared! ResultsPlus

This is an extract from a student answer.

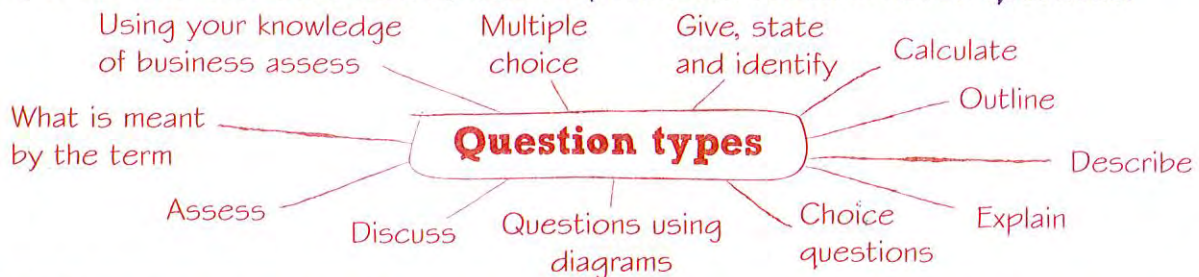
Now try this



- 1 Identify two EU regulations that might affect UK businesses. (2 marks)
- 2 Explain one benefit to a business of the UK being part of the European Union. (3 marks)

Exam skills 1

You will have 1 hour 30 minutes to complete the Unit 3 exam paper. The paper is worth 90 marks and there are three sections (Section A, B and C). The paper will contain multiple choice, short- and extended-answer, data response and scenario-based questions.



Context

When an exam question refers to a particular business, you need to answer the question in the **CONTEXT** of that business. This means that your answer must talk specifically about the business in the question.

To do this, you should think about:

- ✓ the products the business makes
- ✓ the industry in which it operates
- ✓ who the competitors are.

Understanding the question

Make sure that you read the questions and any other information carefully so you can understand what the question is asking you to do. Do you need to identify, explain, describe, discuss or assess something?

You should also look at the number of marks available and make sure you spend the appropriate amount of time on each question.

Worked example

target
C-F

Amazon is a well known online retailer. It has grown by differentiating itself from its rivals and being highly competitive.

- (a) Which **one** of the following elements of the marketing mix does this represent? Select **one** answer. (1 mark)

- A Price C Promotion
B Product D Place

- (b) Identify **two** methods Amazon might use to differentiate its service from its rivals. (2 marks)

- 1 Lower prices
- 2 Convenience

- (c) Describe why developing a well known brand is important to the success of a business such as Amazon. (3 marks)

Branding gives Amazon a clearer identity and personality. This will make Amazon stand out because the internet is very competitive.

target
D-C

target
D-C

There are three parts to this question and all three parts refer to Amazon. Make sure that you think about Amazon's products, business and competitors when answering the questions. There are three different question types here:

- Multiple choice
- Identify
- Describe

Make sure you understand what you need to do for each question.

Other possible answers include:

- improving quality
- more choice
- branding
- faster delivery.

You do not need to spend time writing lots of detail for 'give', 'state' and 'identify' questions.

EXAM ALERT!

More than one in ten students got all three marks for part (c). You need to make three relevant points and refer specifically to Amazon.

This was a real exam question that a lot of students struggled with – be prepared!

ResultsPlus

Exam skills 2

In your exam you will have to answer six, eight and ten mark questions. These are called extended-writing questions. To answer an extended-writing question effectively you should:

- ✓ read the question and any other information carefully
- ✓ make sure you understand what the question is asking you to do – do you need to make a choice, discuss or assess something?
- ✓ use appropriate business concepts and terms
- ✓ develop your answer and support it with appropriate examples
- ✓ refer to the context given in the question (if there is one)
- ✓ make sure your answer is balanced.

Some of these questions are based around evidence and will give you a specific **CONTEXT**. You need to make sure that you apply your answer to the given context when answering these questions.

Worked example

target
B-A

- (a) Having a quality control system or a quality culture are two ways a business might try to improve quality. Which of these **two** do you think would be more successful in improving quality in a business and why? (6 marks)

I think that a quality culture is more successful in improving quality because it includes all employees so is better for motivation. If employees feel included, they might be more satisfied as they are proud of doing a good job. It depends on the business culture though as it can take time to establish a quality culture...

- (b) Discuss the importance of increasing wages as a method of motivating workers employed in low-skilled industries. (6 marks)

Increasing wages is an important motivator for low-skilled industries because low skill jobs are usually low paid. Also, these jobs might be more boring so money is important as there are few other motivators...

target
A-A*

In this extract the student has thought about the **context** of the question – workers in **low-skilled industries**. This means that their answer is focused appropriately on the reasons why money might motivate these workers in particular.

This is an extract from a student answer.

In this extract, the student has chosen 'quality culture' and has started to explain how this would be more successful in improving quality.

When answering this question you need **either** to refer to both quality control systems and quality culture, and evaluate why you have chosen the method **or** to focus solely on one method and provide analysis and balance around this method. Remember that there is no right answer to these questions but you need to make sure you justify your choice.

This is an extract from a student answer.

EXAM ALERT!

Only one in twenty students scored five or six marks for this question. You need to focus on the context and think about the **extent** to which money motivates a worker.

This was a real exam question that a lot of students struggled with – **be prepared!**

ResultsPlus

Exam skills 3

Some of the extended-writing questions in Sections B and C will be assessed for the quality of written communication (QWC). These questions are marked with an asterisk. When answering these questions you should make sure that:

- ✓ your answer is written to a high standard
- ✓ there are no errors in spelling, punctuation or grammar
- ✓ the quality of language is high
- ✓ your answer is clearly structured.

Worked example

This asterisk means that your answer will also be assessed for QWC.



- * (a) Tesco has taken steps to reduce the effect of its operations on the environment. Assess two possible benefits to Tesco from doing this.

(8 marks)

This is an extract from a student answer.

...How far these two things (adding value and premium pricing) will benefit Tesco depends on how important these benefits are to customers. Some customers might not care about the environment and only worry about the price of goods they buy from Tesco, so introducing premium pricing would actually be a drawback...

EXAM ALERT!

More than one in ten students scored four or more marks for this question. Your answer must contain **analysis and evaluation**. For example, you could consider the size and speed of any benefits, state which benefit is larger or more significant, or consider that benefits usually involve some kind of drawback.

This was a real exam question that a lot of students struggled with – be prepared!

ResultsPlus

This is an extract from a student answer.



- * (b) Stuart Rose believes that a responsible business can be a profitable business. Using your knowledge of business, to what extent can a business like M&S be ethically responsible and profitable. Justify your answer. (10 marks)

...Overall, as M&S is a large firm that has economies of scale and the potential to reduce its production costs even further, it is possible to be ethically responsible and profitable to a large extent. However, the company needs to be careful about achieving the right balance because reducing production costs could damage quality or the company's reputation, which would then damage its profitability.

This asterisk means that your answer will also be assessed for QWC.

You must **justify** your answer. Your answer should have a clear, balanced argument for and against the possibility of absorbing higher costs, and include the appropriate business terminology, concepts and methods. You should finish with a well-supported conclusion.