

4 Using two examples, explain what is meant by 'running costs'.

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(4 marks)

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Turn over for the next question

Turn over ►

(b) Should Dave decide to operate as a franchisee? Give reasons for your conclusion.

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(4 marks)

12

Turn over for the next question

Turn over ►

Read and use **Data C** to help you to answer Questions 6 and 7.

Data C

Dave decided to set up his own shop and opened his business in November 2004. Within 6 months, he had already expanded his service. He employed a part-time assistant to cover the average two days a week that he spent photographing weddings. In November 2006, two years after starting up, Dave decided to review his business performance and set out the following figures.

	Actual figures for the year ended 30 November 2005	Actual figures for the year ended 30 November 2006
Sales Revenue	£150 000	£180 000
Gross Profit	£120 000	£140 000
Expenses	£110 000	£125 000
Net Profit	£10 000	£15 000
Gross Profit Margin / Ratio	80.0 %	77.8 %
Net Profit Margin / Ratio	6.7 %	8.3 %

7 In the first few months of 2007, Dave noticed little change in his profitability. As a result, he decided it was time to boost his sales revenue. He came up with a list of three options:

- 1. an advertising campaign in the local newspaper to promote his business;
- 2. buying in a range of cameras and other accessories such as picture frames to sell in his shop;
- 3. hiring an additional person to video weddings.

Compare the advantages and disadvantages of each option. Advise Dave on the best way to improve sales revenue and justify your choice.

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(16 marks)

16

Turn over for the next question

Turn over ▶

Read and use **Data D** to help you to answer Questions 8 to 10.

Data D

Dave found that he was using a lot of special paper to print photographs. He was unhappy with his existing supplier and wanted to find a manufacturer that would supply him with exactly what he wanted. For his business, the price and quality of the paper were the most important things. Dave also wanted to find a manufacturer who shared his concern for the environment.

He finally decided to obtain his paper from a large manufacturer, Paperplus plc. The wood with which Paperplus plc makes the paper is supplied by the Green Forestry Co of Sweden. Dave’s business comes at the end of a chain of production that involves primary, secondary and tertiary production.

Paperplus plc was about to buy new machinery to increase its efficiency and to reduce its 10 % wastage figure. The paper is manufactured using batch production. Production runs usually last for an hour followed by a short break in which the machinery is checked and the chemical tanks are refilled.

8 Explain why ‘price and quality’ are so important for Dave’s business when he buys in photographic paper.

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(8 marks)

9 Explain, with examples from the data, the term ‘chain of production’.

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(6 marks)

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Turn over for the next question

10 Explain why a 10% wastage figure is likely to be a concern to **Paperplus plc**.

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(6 marks)

6

END OF QUESTIONS

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