

Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2012

Marking Scheme

BUSINESS

Higher Level

LEAVING CERTIFICATE 2012

MARKING SCHEME

BUSINESS, 2012

HIGHER LEVEL

LEAVING CERTIFICATE 2012

BUSINESS HIGHER LEVEL

MARKING SCHEME

SUPPORT NOTES

In considering the marking scheme and the support notes the following points should be noted:

- The support notes presented are not exclusive or definitive.
- They are not model or suggested answers.
- The support notes in many cases may contain key phrases which must appear in the candidate's answer in order to merit the assigned marks.
- Further relevant points of information presented by candidates are marked and rewarded on their merits.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

LEAVING CERTIFICATE BUSINESS HIGHER LEVEL 2012

MARKING SCHEME

SECTION 1(80 Marks)

**This is a compulsory section.
Answer 8 questions. Each question carries 10 marks.**

Question	Scheme	Marks
1.	(4+4+2)	10
2.	5 @ 2 marks each	10
3.	6 marks (3+3) 4 marks (2+2)	10
4.	(a) 4 marks (2+2) (b) (i) (ii) 6 marks (3+ 3)	10
5.	(i) 6 marks (3+3) (ii) 4 marks (2+2)	10
6.	(3+3+2+1+1) marks	10
7.	6 marks (3+3) 4 marks (2+2)	10
8.	(a) 4 Marks (2+2) (b) (i) (ii) 6 marks (3+ 3)	10
9.	6 (3+3) +4 marks	10
10.	(i) 6 marks (3+3) (ii) 2 marks (iii) 2 marks	10
Section 1	Available Marks	80

NOTE:

1. In relation to the links given, they **must** be a direct relevant quote/statement or a phrase from the ABQ indicating that candidates clearly understand the point(s) of theory presented.
2. No marks for links given if business theory/relevant heading is not presented by the candidate.
3. No marks given for business theory unless theory relevant to the ABQ.

Section 3

(240 marks)

Answer **four** questions from **Section 3** as follows:

One question from **Part 1**, **Two** questions from **Part 2** and **One** other question from either **Part 1** or **Part 2**. All questions carry equal marks.

Part 1

People in Business/Business Environment

People in Business

Question 1

(A)	The procedures an employer should follow before dismissing an employee under the Unfair Dismissals Act 1977/2007	7 +7+ 6 marks (4+3), (4+3) and (3+3)	20
(B)	Termination of a contract Explanation of <u>breach</u> , <u>frustration</u> and <u>agreement</u> and an example of each	7 + 7 + 6 marks (4 + 3), (4+3) and (3+3)	20
(C)	The National Consumer Agency Evaluation	3 @ 6 marks (3+3)+2	20
	Available Marks		60

Domestic Environment

Question 2

(A)	Private Limited Companies and Co-operatives	7 + 6 + 6 + 6 marks Formation ((2+3)+2) Liability ((2+2)+2) Finance ((2+2)+2) Control ((2+2)+2)	25
(B)	The impact of the Government policy of increased taxation and decreased public expenditure.	Taxation 2 @ 5 (2 + 3) Expenditure 2 @ 5 (2 + 3)	20
(C)	(i) Business Ethics	5 marks (2+3)	15
	(ii) How ethical behaviour in business can be encouraged	2 @ 5 marks (2+3)	
	Available Marks		60

International Environment

Question 3

(A)	Four developments in technology that have facilitated the growth in globalisation.	4 @ 5 marks (2+3)	20
(B)	The barriers to Free Trade. (Name, Explain, Example)	2 @ 7marks (2+3+2) 1@ 6 marks (2+3+1)	20
(C)	The role of the Council of the European Union and the European Commission in EU decision making process.	10 marks (4 + 3 + 3) 10 marks (4 + 3 + 3)	20
	Available Marks		60

Part 2 Enterprise

Managing

Question 4

(A)	The factors that a business needs to consider when communicating with its various stakeholders.	4 @ 5 marks (2+2+1)	20
(B)	The duties of a chairperson and a secretary in the organising and running of an AGM.	10 marks(4+3+3) 10 marks(4+3+3)	20
(C)	Two Leadership styles and their appropriateness in different business situations	2 @ 10 marks (2 + 3+3 +2)	20
	Available Marks		60

Managing/Business in Action

Question 6

(A)	The benefits and risks of empowering employees. (At least one benefit and one risk required)	4 @ 5 marks (2+3)	20
(B)	Discuss <u>Idea Generation</u> and <u>Feasibility Study</u> referring to a product or service of your choice.	2 @ 10 marks (3+4+3)	20
(C)	(i) Explanation of term “Business Plan” (ii) The importance of a business plan. Evaluation.	6 marks (3+3) 2 @ 6 marks (3+2+1)+2	20
	Available Marks		60

Business in Action

Question 7

(A)	Factors to be considered when choosing a suitable Channel of Distribution (examples required).	2 @ 7 marks (3+3+1) 1 @ 6 marks (3+2+1)	20
(B)	Product design Product packaging Evaluation.	10 (5+5)+ 8 (4+4)+2 marks	20
(C)	Reasons for business expansion and growth	2 @ 7 marks (3+3+1) 1 @ 6 marks (3+2+1)	20
	Available marks		60

SECTION 1
(80 Marks)
SHORT ANSWER QUESTIONS

(Support Notes)

1. Illustrate your understanding of the term *enterprise*.

Enterprise is being innovative and creative while taking personal/financial risk to achieve ones goal.

Enterprise is when an individual (or a group of people) takes the initiative/starts something new.

Enterprise involves the risk of organising all the resources necessary to provide a product or service while exploiting an opportunity for a possible reward called profit.

Examples of Enterprise:

Personal Enterprise – Enrolling in a night class

Business Enterprise – Diversification into new markets/new products/ Facebook-Mark

Zuckerberg/Xbox-Microsoft /iPad-Apple

Government Enterprise – Rationalisation of different Government services

Social Enterprise- Special Olympics/fundraising

2. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms.

(One explanation does not refer to any of the terms)

1.	2.	3.	4.	5.
D	A	E	C	F

3. Explain the difference between the terms *tax rates* and *tax credits*.

Tax rates: Income is taxed at two different rates. The rate at which tax is paid depends on the level of taxable income. The current tax rates are the standard rate of 20% up to a certain income and the higher rate of 41%.

The standard or lower rate of 20% applies to the tax band of €32,800 and the higher rate 41% applies to the balance of taxable income.

Tax credits: Gross Tax less Tax Credits = Tax Payable.

Under the tax credit system a taxpayer is entitled to tax credits/range of allowances depending on each person's personal circumstances, which can change from year to year e.g. married person's tax credit or civil partner's tax credit , employee (PAYE) tax credit etc.

These tax credits are used to reduce tax liability calculated on gross pay. Tax credits are non-refundable. However, any unused tax credits in a pay week or month are carried forward to subsequent pay period(s) within the tax year.

Examples of tax credits include: Blind Credit, Dependent Relative Credit, Guide Dog Allowance, Home Carer Credit, Incapacitated Child Credit, One Parent Family Credit, PAYE Credit, Widow/Widower's Credit.

4. (a) Define the term *delegation*.

Delegation involves the assignment of authority/power to another person. It is generally assigned from a manager to a subordinate, to undertake a specific work task or project. The accountability for the particular task/project is also assigned.

(b) Outline two benefits of delegation within a business.

- Manager is not required to do all the work and has more time for strategic planning.
- Task/project may be completed to a higher standard due to the level of personal accountability provided by delegation.
- Increased employee motivation from job enrichment/ improved staff morale/more challenging work.
- Effective time-management tool/ managers can prioritise tasks that need their attention.
- Higher skilled workforce will allow greater management flexibility.
- May improve the work-life balance for the manager.

5. Outline two features of a matrix organisation structure.

- It is a team based structure with expertise drawn from different departments e.g. marketing, finance, information technology, production etc.
- Team members are answerable to the project leader who is responsible for co-ordinating team effort and ensuring task completion.
- It is generally set up to carry out specific projects such as product development.
- All team members have an input into decision making/problem solving.
- Team can achieve greater output/productivity (synergy).
- Each employee can have two managers, the project manager and the functional manager which could lead to confusion and conflict.
- Highly specialised employees and equipment are shared by departments.

6. In the context of business, what do the following letters stand for?

Write your answer in the spaces provided.

R&D	Research and Development
PLC	Public Limited Company
IBEC	Irish Business and Employers' Confederation
EGM	Extraordinary General Meeting
DIRT	Deposit Interest Retention Tax

7. Distinguish between a *merger* and a *franchise* as methods of business expansion.

A merger is a friendly or voluntary amalgamation/joining together of two or more firms for their mutual benefit. A single new legal entity is formed once it is approved by shareholders. e.g. Irish Permanent and Trustee Savings Bank merged to form Permanent TSB. Avonmore Co-op and Waterford Foods merged to form Glanbia plc.

A Franchise is a business arrangement whereby the franchisor (the existing business with the proven business model) grants a contractual licence/permission to the franchisee (person setting up the business) to use its name, logo and business idea in return for a fee or a percentage of profits or sales.

The franchisor can expand his business without having to invest further capital or take additional risks as these are passed onto the franchisee in the contractual arrangement. Some franchises in Ireland include, The Zip Yard, Gloria Jean's Coffees, McDonalds and GEMS.

8. Define the 'primary sector' and outline two current trends affecting this sector in Ireland.

The primary sector (extractive) is a category of industry based on the natural resources of a country such as agriculture, forestry, fishing, mining, energy.

Current Trends

- Commodities such as beef and milk are commanding higher prices on world markets as demand increases due to global population growth.
- Cóillte the state agency operating in forestry, land based businesses, renewable energy and panel products may be privatised along with other businesses such as Electric Ireland.
- As a result of overfishing the EU has introduced fish quotas in an attempt to conserve fish stocks.
- Gas deposits discovered in the Fermanagh/Leitrim border may be mined using 'fracking' a controversial mining technique. The Corrib natural gas field has also proved controversial.
- Developments in the area of wind energy and solar power.
- Continued growth in organic food production capitalising on Ireland's green image worldwide.
- Restriction on turf cutting due to EU environmental directive.

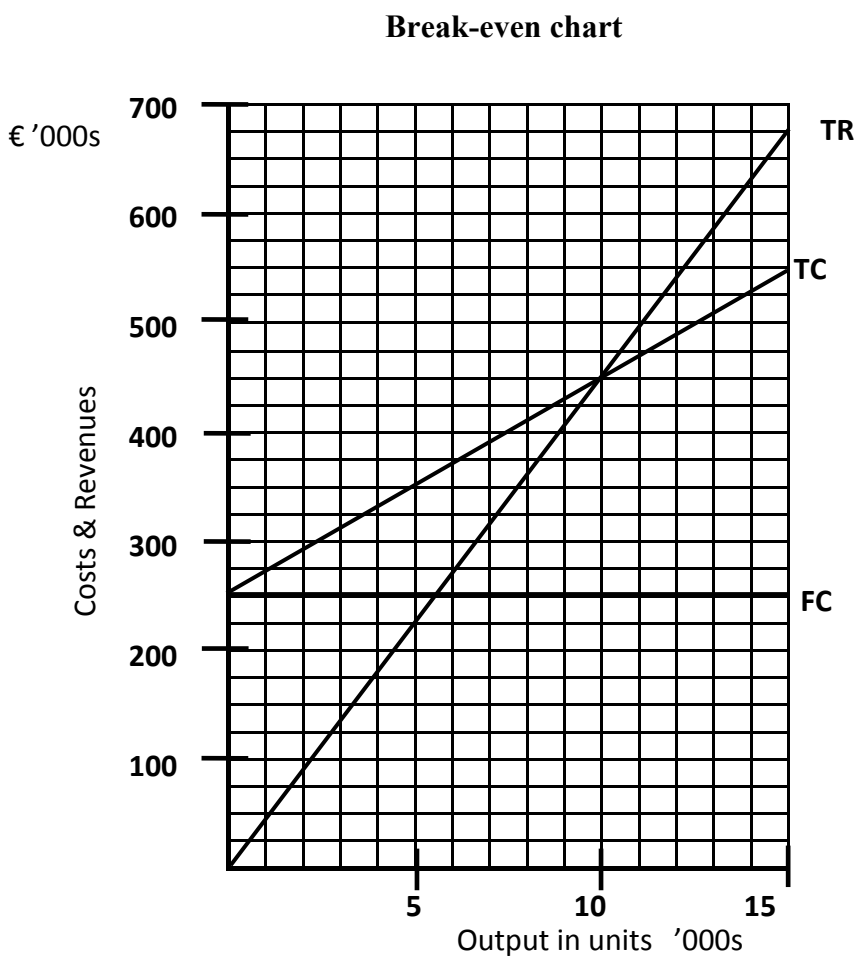
9. Illustrate your understanding of the term *Trading Bloc*.

A trading bloc is a group of countries who agree to form a free trade area or common market or customs union. They remove trade barriers for goods and services traded among themselves.

Examples:

- The European Union (EU)
- The North American Free Trade Agreement (NAFTA).

10. Break-even chart



Answer the following questions in the Answer Box below

(i) **Break-even point (BEP)** in units and in euros

(ii) The **Profit** at Forecast Sales (15,000 units) in euros.

Answer Box

BEP in units and in euros	Units: <u>10,000</u> € 450,000
Profit at Forecast	€ 125,000

- (iii) Margin of Safety shows the amount by which sales can fall before reaching the Break-Even point where no profits are made. Margin of safety shows how far estimated sales can fall before a firm becomes loss making.

SECTION 2
APPLIED BUSINESS QUESTION
80 MARKS

**(A) Identify and describe the most appropriate sources of finance to meet the needs of
(i) RIM Ltd.**

Long Term Finance:

Mortgage/Long Term Loan/Debenture: It is taken out for more than 5 years. If the bank lends the €400,000 to RIM Ltd it will hold the deeds of the factory warehouse as security against the repayment of the loan. It is paid in agreed instalments including interest which is tax deductible. If RIM Ltd defaults on the repayment then the bank can recover their money through the repossession and sale of the warehouse.

Equity/Share Capital/Owners Capital: RIM Ltd is a Private limited company and the €400,000 needed to purchase the warehouse could be raised by selling ordinary shares to new or existing shareholders. No security or repayments are required for RIM Ltd.

Government Grants: Government agencies such as Enterprise Ireland or County Enterprise Boards could be approached for grant aid assistance to help purchase the factory warehouse for €400,000. Normally they are interest free and do not have to be repaid if used for their intended purpose.

Link: “It set about identifying the financing options available to purchase the factory warehouse for the agreed price of €400,000.”

Medium Term Finance:

Medium Term Loan: RIM Ltd could get a medium term bank loan with a fixed rate of interest that would be repaid in equal monthly instalments up to a five year period, allowing the company to cash purchase and negotiate the best cash prices available for heating equipment, fixtures and fittings etc. The bank may require security or personal guarantees. Interest paid is tax deductible. RIM Ltd will know in advance the amount and number of repayments and can budget accordingly.

Link: “An additional €50,000 was required to refurbish the warehouse into 50 stall units which could then be rented out to farmers and crafts people”.

**Identify and describe the most appropriate sources of finance to meet the needs of
(ii) individual stallholders.**

Medium Term Finance:

Hire Purchase: This is a method of finance that would allow the individual stallholders to purchase an asset such as a transport vehicle over a five year period or less. The stallholder will get immediate possession of the transport vehicle, however, ownership doesn't transfer until the last instalment is made. HP is an expensive source of finance. No security is required but the HP Co. may repossess the asset if there is a default in repayments.

Leasing: This would involve the renting of an asset by the individual stallholder from a finance company. The stallholder will not have to come up with a lump sum and would have the full use and possession of an asset, provided s/he makes fixed and regular payments to the company. While leasing costs more than cash purchase it can help the cash flow of a business.

Link: "The stallholders had to initially purchase a transport vehicle, equip their stall".

Short Term Finance:

Bank Overdraft: This is a facility offered by a bank that allows current account holders to withdraw more money from their account than they actually have in it. Interest is charged on the outstanding balance on a daily basis. It can be recalled by the bank at any time. The individual stallholders could use their overdraft facility to purchase stock or pay the wages of part time staff. It can be used as a form of working capital to aid in day-to-day business operations.

Accrued Expenses: This source of finance frees up money by delaying the payment of regular bills such as utilities, rent or insurance. This would free up cash to pay for supplies which in turn could be sold allowing these bills to be paid later.

Trade Credit: Stallholders may buy stock for resale on a "buy now and pay later" basis. The amount of credit available is influenced by the creditworthiness of the stallholder. There is no direct charge but cash discounts may be forgone.

Link: "The stallholders would have to manage cash flow effectively and control essential costs such as raw materials, stock, transport operating costs, wages and insurance".

OR

Link: "The stallholders had toequip their stall and pay the agreed stall rent of €50 a day to RIM Ltd". (Candidate treating "equip stall" as a purchase of "stock")

(20 marks)

(B) Discuss the benefits for the local community, arising from the success of RIM Ltd.

Economic Benefits:

- **Direct employment/Job Creation.** Jobs are directly created in the community reducing unemployment.
Link: “At the end of its second year the number of stallholders had increased from its original 7 to 30.”
- **Spin-off employment.** With increased employment and increased visitor numbers more income is being spent in the community increasing spin-off jobs in the retail and services businesses.
Link: “Many local services in Riverport such as B&Bs, restaurants and petrol stations reported increased year-end profits.”
- **Enterprise culture.** New enterprise is encouraged and promoted. Other new businesses (“Start-ups”) have set up in the market as confidence grows from the success of RIM Ltd.
Link: “...Lease out units within the warehouse to an indoor children’s play and activity centre and a car valeting centre.”
- **Local Produce.** Goods are provided to local consumers by local producers. Locals do not have to shop outside their local area (i.e. shop local)
Link: “.....unique opportunity to sell their produce directly to the consumer”.
- **Income for local authorities.** Commercial rates are an important source of income for local authorities and as new businesses are established revenue from commercial rates increases, allowing the local council to improve amenities.
Link: “The local town council donated a nearby green area for the construction of a public park”.

Social Benefits:

- **Community spirit/ Sense of pride/ Improved quality of life.** The success of RIM Ltd has facilitated an improvement in community spirit and social interaction between the different community stakeholders. With prosperity comes a sense of pride in the community as the town’s appearance and amenities improve.
Link: “The market provided opportunities for locals and visitors to meet informally and interact with each other”.

OR

Link: “The local town council donated a nearby green area for the construction of a public park.”

OR

Link: RIM Ltd was able to lease out units within the warehouse to an indoor children’s play and activity centre...”

- **Depopulation is prevented** and the social fabric maintained. When an area is being developed people tend to stay there and not leave. The population does not decrease and life stays in the community (schools, health centres etc.).

Link: RIM Ltd was able to lease out units within the warehouse to an indoor children’s play and activity centre...”

(30 marks)

(C) Evaluate the promotional techniques undertaken by RIM Ltd.

There are four promotional techniques undertaken by RIM Ltd. They are direct advertising, sales promotion, public relations and personal selling.

Direct/ Advertising:

- Advertising is the communication of information to a target market/audience using the advertising media such as press, publications, posters, radio, TV, Cinema, Internet.
- Advertising includes the publication of facts or opinions concerning goods / services to awaken the public's interest and persuade them to purchase.
- It is a very public form of communication and suitable for a wide audience. It creates an awareness of the product in an attempt to convince consumers to purchase. Advertising encourages repeat purchasing, consumer loyalty and increased sales.
- Individual goes through a number of stages. Advertising must create attention, interest, desire and action (AIDA) to be effective.
- Advertising offers the consumer a reason to buy.

RIM Ltd uses the internet to advertise the indoor market.

Link: "RIM Ltd has developed an interactive web site which includes a video clip capturing a day in the life of the market".

OR

Link: "The website has impressed tour operators so much that they have included the market as part of their visitor tour route".

Personal Selling:

- This occurs when a salesperson is in direct contact with the customer and tries to verbally persuade customers to buy a product or service.
- Sales representatives must have good personal and communications skills. They must have detailed knowledge of the product or service being sold.
- They provide feedback to the company on customers' reactions to the product/service.
- They attract new customers as well as retaining existing customers.

RIM Ltd uses personal selling by employing sales representatives to visit various locations and promote the market.

Link: "Sales representatives from RIM Ltd use mobile display booths within the region to attract visitors to the area."

Sales Promotion:

- Sales promotion involves the use of short term incentives and gimmicks/ short term temporary activities to encourage purchase. It is designed to create a sense of immediacy by offering reasons to purchase in the short term, thereby increasing sales.
- Forms of sales promotion include coupons, vouchers, loyalty cards, free samples, banded offers, competitions etc.
- May be useful when launching a new product/service or re-launching an existing product or service
- The purposes of sales promotion include: attracting new users for the product; rewarding loyal users; increasing purchasing frequency among occasional users.
- Sales promotion can be used to complement direct advertising and encourage repeat business.
- Sales promotion offers the consumer an incentive to buy.

Link: “RIM Ltd runs monthly competitions to win a prize of a weekend break in Riverport.”

Public Relations:

- The aim of PR is to generate goodwill/positive customer relations for the business/achieve favourable publicity/positive image for the product, service or firm.
- Specific tools/methods for communicating the message include press statements to the media, speeches by management, conferences, photo opportunities, newsletters, annual reports, company brochures, social/charitable activities.
- Sponsorship: A company pays money so that their name/logo RIM Ltd can be associated with an event/sports team (e.g. Failte Ireland sponsored the Irish Open Golf Tournament). The company will then be tied to any publicity of the event/sports team. Businesses enhance their reputation by making positive contributions to the local community.
- The Business benefits from the indirect advertising generated by the event/sports team.

Link: “RIM Ltd continues to build on its good relationship with the local community by providing financial support to the local GAA club, in return for having the RIM Ltd brand name and logo appear on the club’s jersey.”

EVALUATION REQUIRED

(30 marks)
(80 marks)

SECTION 3
(240 marks)

Answer **four** questions from **Section 3** as follows:

One question from **Part 1**, **two** questions from **Part 2** and **one** other question from either **Part 1** or **Part 2**. All questions carry equal marks.

SECTION 3
Part 1
People in Business

Question 1

(A) Outline the procedures an employer should follow before dismissing an employee, under the terms of the Unfair Dismissals Act of 1977-2007.

All dismissals are presumed to be unfair unless the employer can prove otherwise. The burden of proof lies with the employer. The employer must show that there were substantial grounds for justifying the dismissal, e.g. misconduct such as theft or assault caught on CCTV.

- Counselling/Advice:

Counselling (i.e. advice on how to improve) is given by supervisor and recorded on the employee's personal record. The employer outlines what employee needs to do to rectify the situation. The employee is made aware of the consequences.

Formal verbal warning:

The employer has to inform the employee of the reasons for the possible dismissal. The evidence for the dismissal must be made known to the employee. This is given in the presence of the employee's representative. The employee is given the opportunity to respond fully to any such allegations or complaints. The warning is recorded on the employee's personal record.

- First Written warning:

If there is no change to the situation, a formal written warning follows the oral warning. A copy will be given to the employee's representative.

This may be followed by a final written warning, suspension without pay, transfer to another task, or section of the enterprise, demotion, some other appropriate disciplinary action short of dismissal and finally dismissal.

- Employee's Right of appeal

The employee has the right to a fair and impartial determination of the issues concerned, taking into account any representations made by, or on behalf of, the employee and any other relevant or appropriate evidence, factors or circumstances.

- Employer Duties/Responsibilities

The employer must recognise the employees right to representation at a hearing into the dismissal and the hearing itself must be impartial.

Other points: The employer is required to give the Procedure for Dismissals (i.e. Handbook for Employees) to all employees/Written copy of the reasons for dismissal must be forwarded to the employees within 14 days of the dismissal.

(20 marks)

(B) A legal contract can be terminated by breach, frustration or agreement.

Illustrate your understanding of the underlined terms.

A contract may be terminated:

By Breach

If one of the parties does not perform his/her side of the bargain/contractual obligation i.e. does not honour the promises made, the contract is said to have been repudiated. The party is in breach of a condition/essential element agreed. The second party has the right of action in the courts against the first party who caused the breach/compensation.

Example: A condition of the contract states that the furniture is to be black leather. When it is delivered it is red and polyester. This is a fundamental breach of a condition of the contract and the buyer is entitled to seek redress (i.e. rescind, seek damages, seek specific performance).

By Frustration

An unforeseen event prevents the contract from being completed. Something happens which makes it impossible to complete the contract

Example: The death or bankruptcy of one of the parties to the contract.

By Agreement

The parties to the contract may agree to end/cancel a contract by mutual consent whether or not the purpose of the contract has been achieved.

Example: A contract of employment may be ended by agreement if it includes a clause stating the contract can be terminated if one month's notice is given.

(20 marks)

(C) Evaluate the role and functions of the National Consumer Agency (NCA) in protecting consumers.

The main functions of the National Consumer Agency (NCA) in protecting and promoting the interests and welfare of consumers are:

The main role/functions of the NCA are:

- To promote and protect the interests and welfare of consumers. To inform consumers of their rights/publish shopper's rights leaflets/ provide a consumer phone service/website.
- To enforce the relevant consumer law. Enforcement tools include prohibition notices, undertakings from traders, compliance notices, on the spot fines for offences relating to price display, and the ability to "name and shame" with the publication of non-compliant trader names. These powers include the right to enter premises, get documentation and other evidence in relation to any trade or business which is being investigated.

Enforcement role in relation to pricing and price displays and a product safety role when it comes to items such as personal protective equipment- like GAA helmets or toys. Prohibits false pricing, e.g. goods advertised as being reduced in a sale must have been on sale at the higher price for twenty eight consecutive days (in a row) sometime in the last three months.

- To encourage compliance with the relevant law/ to investigate suspected offences under any of the relevant laws.
- To refer cases to the Director of Public Prosecutions where appropriate.
- To conduct research into consumer issues/attitudes. Responsibility for market surveillance of non-food consumer products. It enforces product safety legislation, investigates complaints about unsafe products, alerts consumers and advises manufacturers, suppliers and retailers.
- To conduct pricing surveys to raise awareness of price differences.
- To advise the government of the impact of laws on consumers and make recommendations on legislation or policy, which concerns or is likely to impact on consumer protection and welfare.

Evaluation The NCA is very effective because it is a statutory body, is an advocate for the consumer and has enforcement powers for example:

-The NCA can serve a compliance notice on a trader whom it considers to have engaged in a prohibited activity. The NCA has the power to enter premises to gather evidence, with the support of the Gardaí if necessary. The trader has 14 days in which to appeal the notice. If the trader fails to comply, the NCA may take criminal proceedings.

-Publication of a Consumer Protection List; a list of traders convicted of criminal offences, subject to court orders, bound by an undertaking, served with a compliance notice, or subject to a fixed payment notice.

-The National Consumer Agency may also apply to the court for an order that requires a business to pay compensation for any loss or damage to the consumer resulting from an offence.

(20 marks)

(60 marks)

Question 2

(A) Discuss *Co-operatives* and *Private Limited Companies* as forms of business ownership, using the following headings:

Formation; Liability; Finance; Control

Formation

A private limited company is a business owned by investors called shareholders who contribute funds to finance the business.

Following the enactment of the Investment Funds and Miscellaneous Provisions Acts 2006, private companies are now entitled to have up to 99 shareholders. The limit, which was previously set at 50 members, was increased to reflect EU law.

The formation of a private limited company is a complex process and necessitates the completion of the following documents:

- Form A1
- Memorandum of Association
- Articles of Association

These documents are sent to the Companies Registration Office (CRO) and once the Registrar is satisfied that everything is in order, he issues a certificate of incorporation which allows the business to begin trading as a private limited company.

A Co-operative (Co-op) is a business enterprise that is democratically-controlled and jointly-owned by its members. Members have a common bond and operate the business for their mutual benefit. A co-operative requires at least seven members and an application must be made to the Registrar of Friendly Societies. Once all rules are adhered to and the appropriate fee paid the Registrar gives permission to the co-op to begin trading. The co-op is incorporated under the Industrial and Provident Societies Acts 1893-1978. The Irish Co-operative Organisation Society Limited (ICOS) acts as a co-ordinating organisation for most co-operatives in Ireland.

Liability

The shareholders of a private limited company have limited liability. This means that the shareholders are not personally liable and can only lose the amount of their original investment, if the business fails.

Just like private limited companies the members of co-ops have the protection of limited liability. This means their liability is limited to the amount invested in the co-op.

Finance

One of the main attractions of the private limited company structure is the ability to raise capital by selling shares up to a maximum of 99 shareholders. The maximum share capital that can be raised is stated in the Memorandum of Association. Profits are distributed to shareholders in the form of dividends.

Co-operatives in Ireland may find it difficult to access funding. This is because there is only a limited amount of finance that can be raised from its members. The amount the member subscribes depends on the type of co-operative. Members receive a share of the profits in proportion to their turnover with the co-operative (producer co-operative) or as a percentage of the savings (credit union).

Control

A private limited company is controlled by the shareholders based on the rule “one share one vote”. The shareholders elect a board of directors who are responsible for the running of the company. The board of directors elect a Managing Director (MD) or a Chief Executive Officer (CEO) who is responsible for managing the company on a day-to-day basis. The original shareholders can maintain control of the company as long as they continue to hold 51% of the ordinary share capital.

Co-operatives have a democratic structure, where each member has one vote, “one member one vote”, with majority decision making and an elected management committee accountable to its members. This management committee run the business and make the important decisions. Members have an equal say in the running of the co-op regardless of the number of shares held.

(25 marks)

(B) Outline how the Irish government’s policy of increased taxation and decreased public expenditure is impacting on business.

While the Government has maintained income tax rates at the standard rate of 20% and the higher rate of 41% and protected its corporation tax rate at 12.5%, none the less it has pursued a policy of increased taxation.

Increased Taxation

Value Added Tax (VAT): The 23% VAT rate applies to a wide range of goods and services. Among the items that are subject to the 2% increase are: motor vehicles, petrol, electrical supplies, furniture, adult footwear and clothing, alcoholic and soft drinks, and tobacco. In terms of services, accountancy services, legal services, tax advisory services are all subject to the higher rate of tax.

Household charge: The new €100 charge became payable from Saturday 31st March, 2012 for some 1.6 million homeowners.

Motor tax: Motor tax has risen by an average of about 7.5 per cent from the beginning of 2012.

Excise Duties: Tobacco products tax. Excise duty on a packet of 20 cigarettes was increased by 25 cent (including VAT).

Banking: Rate of Dirt has increased from 27 per cent to 30 per cent.

Tax increases have a negative impact on business.

VAT increases lead to more expensive goods and services for the consumer which in turn causes demand to fall, thereby affecting business. For example the volume of sales in department stores fell by 18.4%, electrical goods by 12.0% and bars by 3.5% as a consequence of the negative impact of the VAT rise to 23%.

Taxes such as the household charge lead to a fall in the disposable income of consumers. As consumers spending power is reduced the demand for the goods and services that businesses sell will fall.

Increases in excises duties on tobacco products have led to an increase in tobacco smuggling. Excise duties on cigarettes continue to rise, increasing the incentive for customers to choose cut price illegal products sold on the black market. In 2010, Ireland's retailers lost €896 million in turnover to the Black market.

Decreased Public Expenditure

The following are illustrations of cuts in government expenditure;

Social Welfare Savings of €475m e.g. The Government standardised the rates of payments of child benefit for all children, scrapping premiums for third and subsequent children to save nearly €45m.

Healthcare Savings of €543m e.g. The Government is to reduce staff numbers and contain pay costs, to save €145m.

Education Savings of €132m e.g. The Government raised the pupil-teacher ratio, saving €19.4m

Public Sector Employment e.g. The Government Public service pay bill will fall by €400m in 2012. By the end of 2012, the numbers employed in the public service will be below 300,000. Public sector to be cut by another 6,000 in 2013.

Capital Expenditure. The capital budget for 2012 has been cut by €755m to €3.9bn

Among the major projects which have been cancelled are:

- Metro North and Metro West
- The underground Dart
- Thornton Hall Prison
- The new DIT campus at Grangegorman in Dublin
- The Western Rail Corridor

The Public Expenditure cuts have a negative impact on business.

Cuts in current expenditure have meant lower wages for workers, lower social welfare payments for the unemployed, higher unemployment (Standardised Unemployment Rate 14.3% in March 2012) etc. affecting spending in the economy. As consumer spending power is reduced the demand for the goods and services that businesses sell will fall.

Under-investment in infrastructure can undermine economic growth and competitiveness. It is argued that Metro North would have created 4,000 direct construction jobs and thousands more indirect jobs in retail and in the construction supply sector. Lack of investment in infrastructure will impact on FDI (Foreign direct investment) and on start-ups.

The Government embargo on recruitment in the Public Service has reduced opportunities for employment.

Decreased public expenditure has resulted in less goods/services being purchased by Government agencies e.g. health services.

Cut-backs in Budget allocations to various state bodies/services have reduced the availability of various services/grants to businesses. (20 marks)

(C) (i) Define the term 'Business Ethics'.

It is a set of moral rules and standards that provide guidelines for right and truthful behaviour in business situations with its various stakeholders such as employees, customers, suppliers and the community in which it operates.

Business ethics is concerned with right and wrong, fairness, honesty and respect in a business context.

(ii) Outline how ethical behaviour in business can be encouraged.

- Establishing a code of ethics. A code of ethics is a formal written statement setting out the modes of behaviour expected from a business in its dealings with employees, customers and the community in which it operates/encourage a culture of openness.
- Encouraging 'whistle blowing'. This involves encouraging staff to report unethical behaviour by creating a climate where whistle blowing is rewarded/legislation.
- Modelling ethical behaviour. When senior staff is highly ethical and model ethical behaviour it will encourage subordinates to behave in a similar manner.
- Staff Training. A code of ethics should be presented to staff at induction training and reminder training should include modules on ethical behaviour.
- Discipline procedures/rewards should be in place for staff guilty of behaving unethically. This could typically include fines, demotion or dismissal. At the same time ethical behaviour should be encouraged through rewards such as bonuses or promotion.

(15 marks)

(60 marks)

Question 3

(A) **Outline four developments in technology that have facilitated the growth in globalisation.**

- **Design/ CAD.**
CAD (Computer Aided Design) had revolutionised the design process, making it much easier and faster, and allowing companies to react quickly to changing global market conditions.
- **Production/CAM**
Computer aided manufacture (CAM) where all equipment can be computer controlled and computer integrated manufacturing (CIM) which involves total integrated control of the production from design to delivery, all add to the efficiency of production and the ability of firms to locate anywhere in the world and produce standardised products irrespective of local labour skill sets.
- **Communication/mobile technology/EDI**
EDI (Electronic Data Interchange) greatly facilitates communication in a global market. Document transfer, automated stock ordering, details of trading figures etc. can be transmitted globally in a matter of seconds.
- **Decision Making/ISDN**
ISDN (Integrated Services Digital Network) uses telephone lines to transmit and receive digital information. File transfer, teleworking, video conferencing, e-mail etc. allow vital information to be transferred anywhere in the world. This greatly assists management planning, organising and control and facilitates effective decision making.
- **Marketing/Internet/social networking/www**
The Internet including social network sites such as Facebook and business networks such as LinkedIn have facilitated the global marketing of companies and the establishment of global brands. Network advertising, company web sites and electronic payment have allowed global E-commerce to flourish.
- **Distribution/ JIT**
Logistics, just-in-time delivery, container transport and the relevant computer software programs facilitate the global distribution of goods.

(20 marks)

(B) Describe, using examples, barriers to free trade between countries.

Quota: is a physical restriction/limit on the number of units of a good that may be imported/exported.

Quotas discourage imports and/or encourage sales of domestically produced goods.

Example: The EU has placed a quota on the amount of clothes from China that can be imported into the EU.

Tariff: this is a tax on the value/price of goods imported. As a result imports will be more expensive and they will be less competitive on the domestic market.

Example: A tax, duty or tariff on New Zealand beef.

Embargo: This is a total ban on the import of goods from one particular country. It is often done for political reasons.

Example: EU countries placed a blanket embargo on the import of UK beef because of the high levels of BSE in the UK.

Subsidies: These are grants and payments made by national governments to domestic firms to help them with their day-to-day operating costs allowing them to become more competitive/to give them a price advantage over imports.

Example: The EU has subsidised agriculture and aircraft manufacturing in the past protecting them from rival non EU competition.

Administrative regulations: Such as customs delays, excessive paperwork designed to exclude imports.

(20 marks)

(C) Discuss the role of the Council of the European Union (Council of Ministers) and the European Commission in the European Union (EU) decision making process.

Council of the European Union (Council of Ministers)

- Main decision making body of the EU. Its decisions are made by qualified majority voting in most areas, unanimity in others. Usually where it operates unanimously, it need only consult the Parliament.
- Relevant Ministers from each country. The Council is composed of several configurations of twenty-seven national ministers (one per state). The exact membership of the configuration depends upon the topic; for example, when discussing agricultural policy the Council is formed by the twenty-seven national ministers whose portfolio includes this policy area (with the related European Commissioner contributing but not voting).
- It decides on legislation drafted by the European Commission. In most areas the ordinary legislative procedure applies meaning both Council and Parliament share legislative and budgetary powers equally, (both have to agree for a proposal to pass). In a few limited areas the Council may initiate new EU law itself.
- It approves the EU budget, set goals and co-ordinate policy

The European Commission

- The European Commission is the executive body of the European Union. The body is responsible for proposing legislation, implementing decisions, upholding the Union's treaties and the general day-to-day running of the European Union.
- Drafts proposals for new laws. Once legislation is passed by the Council of the European Union and Parliament, it is the Commission's responsibility to ensure it is implemented. It does this through the member states or through its agencies.
- It represents the EU internationally.
- The Commission is responsible for the implementation of the EU budget; ensuring, along with the Court of Auditors, that EU funds are correctly spent.
- In particular the Commission has a duty to ensure the treaties and laws are upheld, potentially by taking member states or other institutions to the Court of Justice in a dispute. In this role it is known informally as the "guardian of the treaties".

Summary Note

Outline of the decision-making process of the EU:

- Proposals are made and/or legislation drafted by the **European Commission**
- These proposals are then discussed in the European Parliament
- Opinions of interested parties are sought, received and considered.
- Decisions are usually made by the **Council of the European Union**
- Legislation is implemented by the **European Commission**
- Decisions/legislation can be adjudicated upon by the Court of Justice.

(20 marks)

(60 marks)

SECTION 3
Part 2
Enterprise

Question 4

(A) Illustrate the factors that a business needs to consider when communicating with its various stakeholders.

Appropriate Language/Clarity (E.g. stakeholder, the consumer)

If the language is too technical or too difficult for the customers to understand then the message may be misinterpreted. The business needs to choose language appropriate to its audience. In the case of customers, short clear sentences and visual supports etc. may be suitable for product assembly e.g. flat packs.

Confidentiality/Safety (E.g. stakeholder, the employee)

The medium chosen must be appropriate to the message been given. If the message is sensitive for the stakeholder e.g. terminating the employment contract of an employee, then a meeting would be more appropriate than a letter or an e-mail.

Cost (E.g. stakeholder, the manager)

The expense of the communication process is a very important factor. A CEO communicating with his managers worldwide may choose to hold a virtual meeting to cut down on travel and subsistence costs.

Urgency/Speed/Destination (E.g. stakeholder, the supplier)

If a crucial piece of information has to be communicated instantly to a supplier, then a phone call, a text or e-mail may be appropriate e.g. to arrange a change in delivery times.

Feedback/Accuracy/Record (E.g. stakeholder, the Government)

The business may be looking for feedback in order to take further action. Communication with the revenue commissioners may require regular correspondence and written records and in this case business letters and e-mail can provide formal evidence of the feedback process, eliminating misunderstandings.

Other relevant factors: Legal requirements; Availability of technology etc.

(20 marks)

(B) Distinguish between the duties of a chairperson and a secretary in the organising and running of an Annual General Meeting.

The Chairperson

- The chairperson in conjunction with the secretary is responsible for convening the meeting by drawing up the notice and agenda.
- The chairperson opens the meeting only after ensuring the quorum is present. S/he calls the meeting to order and welcomes everybody setting the correct tone.
- S/he ensures that minutes of previous AGM are read, adopted and signed.
- The chairperson ensures that the agenda is followed in the agreed order / ensuring compliance with standing orders.
- The chairperson guides the discussion and manages time and contributions. Keeping order and dealing with points of order is important/ allowing discussion only of matters on the agenda.
- The chairperson organises vote taking and in the event of a tie s/he has a casting vote.
- The chairperson has power to adjourn the meeting.

The Secretary

- The secretary sends out the notice and agenda to all those who are entitled to attend. This should be sent out in plenty of time giving members or shareholders time to prepare for the meeting.
- The secretary arranges a suitable venue ensuring that essential resources such as refreshments, audio-visual equipment and seating plans are in order.
- The secretary informs the meeting of important correspondence and documents received by the organisation.
- The secretary assumes the role of minute's secretary. This involves reading the minutes of the previous meeting and having them approved and then signed by the chairperson. It also involves taking notes so that the minutes of the present meeting can be written up accurately later.
- The secretary assists and advises the chairperson on points of order, information etc. during the meeting.

(20 marks)

(C) Outline two styles of leadership and illustrate how each of these styles may be appropriate in different business situations.

Leadership Styles.

Autocratic

- Leader who likes to be in control of things and does not delegate/ Little consultation with employees, frequently dictating instructions/ Opinions of employees are not considered
- All major decisions are made by the leader and orders are issued and directives are made to be obeyed without question.
- Fear and threats are used as motivators/ Little trust in employees
- Manager suffers from overloading and the quality of their work suffers
- Subordinates get little experience of management and promotions are mostly external
- Morale can low among staff/ Staff turnover can be high/ Staff become frustrated: industrial relations disputes follow

Illustration: This style of leadership may be appropriate in a crisis or emergency situation where tough decisions may be needed quickly e.g. turning around a business, facing insolvency.

Democratic

- Power is shared with staff
- Authority is delegated to staff, but ultimately responsibility rests with the manager.
- Opinions/ideas/feedback are sought before decisions are made and tend to be better as a result.
- Trust is built overtime with staff/ Staff feel more valued and motivated.
- Promotions are internal as staff get experience of management.
- Intrapreneurship may occur.
- Decision making can be slow and delayed.

Illustration: It may be appropriate in a business that promotes teamwork (e.g. Google). Works well in an environment where staff can handle responsibility.

Laissez – Faire

- Management has a facilitative role (guide) and does not get involved in the day- to -day running of the business.
- Almost all authority is delegated to staff.
- Huge Trust is placed in staff.
- Highly motivated and trustworthy workers use their initiative leading to very high levels of intrapreneurship.
- Staff are empowered rather than ordered.
- Greater freedom given to staff in setting own goals.
- Managers are free to deal with more strategic matters.

Illustration:

Is likely to be used by High Tech industries which rely on well educated and highly self-directed employees. Prevalent form of leadership in firms engaged in R&D and advertising where creativity is valued.

(20 marks)

(60 mark)

Question 5

- (A) **Draft a business letter from EXON Insurance PLC to Bianua Ltd, using today's date, identifying the possible business risks and the appropriate types of insurance policy for Bianua Ltd.** (20 marks)

<p style="text-align: center;">EXON Insurance PLC (Address, Telephone No, E-mail, Directors etc.)</p> <p>Your ref: Our ref:</p> <p>Date 14/06/'12</p> <p>Bianua Ltd (Address)</p> <p>RE: Business risks and the appropriate types of insurance policy for the company.</p> <p>Dear Mr. /Ms...</p> <p>The following is a list of possible business risks and the appropriate types of insurance policy for your company.</p> <p>The risk of structural damage to the factory, warehouse or office building. <i>Buildings Insurance</i> – provides protection against loss or damage to the structure of the building caused by fire, flood or storm.</p> <p>The risk of damage to stock, raw materials, components etc. <i>Contents insurance</i> – provides protection against loss or damage to contents caused by burglary, fire or flood.</p> <p>The risk of being involved in a road traffic accident. <i>Motor insurance</i> – it is compulsory by law to have third party insurance. Other policies include Third Party Fire and Theft and Comprehensive.</p> <p>The risk of losing an important member of staff -Key Person Insurance – protects the business against the loss of a valuable staff member.</p> <p>The risk of a customer injuring themselves while on premises. <i>Public Liability Insurance</i> – protects the business against claims made by the public as a result of accidents while on site.</p> <p>The risk of a worker injuring himself while carrying out his job. <i>Employer Liability Insurance</i> – Covers the business against claims made by employees as a result of accidents in the workplace.</p> <p>The risk of having cash or stock being stolen by an employee. <i>Fidelity Guarantee Insurance</i> – Protects the business against dishonesty or fraud committed by an employee.</p> <p>The risk of the company's products being harmful to the public. <i>Product Liability Insurance</i> – Protects the business in the event of a customer making a claim as a result of defective products that may have caused harm.</p> <p>Others: Goods in Transit/Consequential Loss.</p> <p>I look forward to hearing from you.</p> <p>Yours faithfully</p> <p>_____ Signature Position Held Enc.</p>	
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(B) (i) Calculate the following for 2011 for Bianua Ltd:

- Return On Investment (ROI);
- Current Ratio;
- Acid Test Ratio;
- Debt/Equity Ratio.

**Return on Investment = Net Profit x100 / Cap. Employed
(Ordinary share capital + Retained Earnings + Long Term Loan)**

50,000/(500,000 + 100,000 + 300,000)

50,000/900,000

5.56%

Current Ratio = Current Assets: Current Liabilities

155,000: 85,000

1.82:1

Acid Test Ratio = Current Assets – Closing Stock: Current Liabilities

(155,000 – 80,000): 85,000

75,000:85,000

0.88:1

Debt Equity Ratio = Debt: Equity/ (Ordinary share capital + Retained Earnings)

300,000: (500,000 + 100,000)

300,000:600,000

0.5:1

(20 marks)

(ii) Analyse the *profitability* and *liquidity* of Bianua Ltd, with reference to the industry average results, shown in the box above, **and** make recommendations for Bianua Ltd.

Profitability

The ROI for Bianua Ltd is 5.6%, which measures the return on capital for investors in a business. This is half the average performance of companies in the same industry. However, it is a new company and its ROI still compares favourably with the prevailing interest rates currently available on deposit accounts e.g. Rabo Direct personal savings account offering a return of 3.10%.

Recommendation for Bianua Ltd

Bianua Ltd will want the ROI to be as high as possible and to remain above the bank interest rate. To improve its position it needs to reduce its capital employed figure or improve its net profit by for e.g. controlling its expenses/overheads or trying to increase its sales.

Liquidity

The Current ratio

The average industry result in 2011 had a very healthy level of working capital. It had €2 available to pay for every €1 of liabilities. Maintaining this healthy working capital is essential for a businesses' cash flow.

Bianua Ltd has €1.82 available to pay for every €1 owed, a little below the ideal of 2:1. It should make every effort to maintain its current ratio so that it can pay its short term debts as they fall due. If the liquidity position of a new business is poor and it cannot pay its current liabilities it may have to go into liquidation.

The Acid test ratio

In 2011 the average industry result was 1.2:1 indicating that on average €1.20 was available immediately to pay for every €1 owed. The situation for Bianua Ltd in 2011 was 0.88:1 with the business only having 88c available to pay for every €1 it owes. Neither the industry average, nor Bianua Ltd manages to attain the ideal acid test ratio of 1: 1. The industry has some idle resources; however it is able to pay its short term debts as they fall due. On the other hand Bianua Ltd may have difficulty raising cash quickly to pay its bills as they fall due. Failure to improve on this could result in Bianua Ltd having difficulty in buying goods on credit in the future.

Recommendation for Bianua Ltd:

- Sell slow moving stock at a discount.
- Effective cash flow forecasting in order to avoid liquidity problems.
- Effective credit control will reduce the risk of bad debts.
- Effective stock control will reduce the amount of money tied up in stock.
- Increase cash sales.

(20 marks)

(60 marks)

Question 6

(A) Discuss the benefits and risks of empowering employees within a business.

Benefits

- Decision-making and control is in the hands of employees who use their greater skills and knowledge for the benefit of the business/decisions made quicker.
- Employees become more responsive to the needs of customers/come up with ideas to solve issues/more satisfied customers.
- Employees more motivated/job satisfaction/valued/improved morale/loyal.
- Employees are better prepared for promotion/better trained.
- Management can focus on strategic planning.

Risks

- If empowerment is introduced without adequate training for employees then mistakes can be made.
- Employees may be unhappy with the extra responsibility and/or lack of training and their stress levels may increase. This can cause de-motivation among employees.
- The lack of control and day-to-day supervision may encourage some empowered employees to take unnecessary risks, leading to bad decision making.
- Empowerment means management are handing over control, responsibility and power to subordinates. Some managers may be cautious of this reallocation of power and loss of control. This can lead to conflict between themselves and employees.

(20 marks)

(B) Idea generation and Feasibility Study are important stages before a new product or service is launched onto the market. Discuss these stages underlined above, referring to a product or service of your choice.

Idea Generation

Definition: This is an efficient, methodical way of finding ideas for new products and services and can come from internal or external sources.

Internal

- Brainstorming sessions. This involves people from different areas of the business coming together and creatively thinking up new ideas. Some of these ideas are rejected while some are giving further consideration. The diversity of the team assists in the creativity process.
- Sales personnel either through market research or feedback from sales representatives is a major source of product innovation/new product ideas.
- Ideas from employees through suggestion schemes/suggestion boxes. A good idea may be rewarded by a bonus for example.
- The R&D department may discover a new product through research and development.

External

- Monitoring competitors and copying some of their product ideas, while being mindful of patent and copyright law.
- Import substitution where a product that is currently being imported is substituted by a home produced product of a similar quality or price.
- Use a Market Research company to spot gaps in the market and market trends.
- Customer Complaints could result in changes/developments in products.
- Foreign travel/trade shows.

PRODUCT/SERVICE REQUIRED WITH REFERENCE TO IDEA GENERATION.

Feasibility Study

Definition: The feasibility study takes place after the concept development phase and investigates how viable it will be to produce the product in terms of production, cost and profitability. A feasibility study is an investigative report into the potential and profitability of a business idea.

- **Market feasibility** i.e. is there a demand for the product/what is the best marketing mix for the product and what are the sales figures likely to be?
- **Financial feasibility** i.e. can the business finance the development, production and marketing of the product?
- **Production/technical feasibility** i.e. does the business have the machinery, equipment and buildings to manufacture the product?
- **Skills feasibility** i.e. does the business have the requisite skills to make the product e.g. management skills and employee skills or will training be required and if so how much will this training cost?
- **Environmental feasibility** i.e. will the production processes necessary for the new product have an impact on the local environment? Will planning permission be required?

Product: Steve Jobs figured that more and more functions were going to end up on mobile phones because people didn't have enough hands or pockets to keep track of all their gadgets e.g. a blackberry for e-mail, an iPod for music etc. He realised that all this hardware should exist on a single package i.e. the iPhone.

Development of the iPhone began in 2005. The Apple CEO Steve Jobs directed that Apple engineers investigate the feasibility of touch screens (production feasibility). The touch screen could show a keyboard when it was needed and then hide it when the user wanted to surf the web or look up a map.

(20 marks)

(C) (i) Explain the term “business plan”.

A business plan is a written statement/proposal about the business and its objectives (where it wants to go) and strategies in areas such as marketing, ownership, production, finance and the identifying of opportunities. It is important in the context of business start-ups.

(ii) Evaluate the importance of a business plan to an innovative new technology business.

- It sets out both short and long term strategies/plans over agreed time periods, e.g. one year, five years, ten years, etc. It plans how to get where the enterprise wants to go and as such gives the entrepreneur a focus.

E.g. “Achieve healthy Gross Margin in the first year of operation. Maintain just-in-time (JIT) inventory levels. Increase sales modestly but steadily in the second and third year.”

- It is a vital document when approaching any financial institution, grant agencies or other investors seeking funds (capital) for the enterprise. No financial institutions will give funds to an enterprise without being convinced that the investment has a good chance of being recovered. The business plan markets the enterprise; it sells the business ideas to others and encourages them to seriously consider the project.

E.g. “Managing the business by implementing, and consistently measuring and adjusting goals/targets and actual results i.e. financial goals vs. results”.

- The nature of the business plan is such that targets are set in figures wherever possible. By having these figures available they can be used as the benchmarks or standards against which the operations and performance of the enterprise can be measured. If the standards are not reached then the action to fix the problem can be implemented.

E.g. “Managing the business by implementing, and consistently measuring and adjusting goals/targets and actual results i.e. Employee Learning and Growth Goals vs. Results, Customer Satisfaction Goals vs. Results”.

Evaluation: A business plan will enable the business to determine if it can be commercially viable. It may support the business when seeking sources of finance from potential investors.

(20 marks)

(60 marks)

Question 7

(A) Outline the factors a business should consider when choosing a suitable Channel of Distribution. Provide examples to illustrate your answer.

- **Cost:** Cost is a factor in choice of channel of distribution. The more stages in the channel of distribution the more expensive the product will be for the consumer as each middle-man will require a cut or mark-up. Ryanair was motivated by cost factors when it cut travel agents out of its ticket sales distribution network. Tesco and Dunnes Stores purchase directly from manufacturers.
- **Type of good/durability:** Some goods are bulky, others fragile and more perishable. Perishable goods must be distributed quickly to the market e.g. fresh fish/flowers are delivered directly to the retailer. High quality products may be sold directly to consumer.
- **Market size:** If the market is large then using a wholesaler to break bulk, store goods and transport products to the retailer may be the most economical distribution option. Cadburys distributes their products through wholesalers like Musgrave Group.
- **E-business:** Companies can advertise and sell their products on line using a company web site. Consumers place orders and goods are delivered using the postal system or a courier delivery service. Dell computers is an example.
- **Technological developments:** Have enabled direct contact between business and the consumer e.g. direct banking and insurance services. Customers can get quotations over the telephone, pay for services with a credit card, transfer funds etc. These services were originally carried out in a branch or by agent or broker.

(20 marks)

(B) Within the product element of the marketing mix, evaluate “product design” and “product packaging”.

“Product design”

Function: This is linked into the main clauses of the Sale of Goods and Supply of Services Act 1980 which puts a legislative onus on producers to manufacture goods that are of merchantable quality and fit for the purpose intended. The product must do what it is expected to e.g. a lawnmower should operate as expected and cut grass properly.

Evaluation

The value of this approach is that the specific needs of the consumer will be met in line with the marketing concept. This will lead to repeat purchasing, consumer loyalty and ultimately increased sales and profits for the business.

Form: The product must be aesthetically appealing in terms of shape, size, colour, style, image etc. e.g. (iPad).

The product must be practical and comply with safety standards; however it must also be appealing. For example car marketing campaigns emphasise efficiency, reliability and aesthetic appeal in their adverts.

Evaluation

Individuals are fashion conscious with unique tastes and preferences. If these needs can be satisfied by businesses then increased sales and profits will ensue.

“Product Packaging”

Product packaging serves many functions:

Protection: Packaging safeguards the product during transit, storage and handling. It also keeps the product fresh, preserving quality until it is used.

Information: The packaging contains information on contents, ingredients, best before date, health warnings etc.

Differentiation/source of competitive advantage: Many products are instantly recognisable because of the shape or design of the packaging, some of which are patented and legally protected e.g. Coca-Cola bottle.

Promotion: Packaging helps market the product because it can draw attention through brands and logos, shape and colour.

Customer/user friendly: Microwave porridge, popcorn, soup, beans etc. make food consumption more convenient and increase sales.

Evaluation

(Size and Quantity) Packaging can control the size and quantity of a product. Portion control helps control inventory, create product consistency and can help regulate prices.

(Marketing) Packaging is the front line of marketing. Through design and marketing communications, packages can help sell a product and differentiate it from similar products. The packaging can also help promote product branding.

(Security) Product security can be provided through packaging. Packing can make items tamper-resistant, can help reduce theft and can help prevent harm from dangerous products.

(20 marks)

(C) Discuss the possible reasons for business expansion and growth at *SuperToys Ltd*.

- Ambition and the desire to build an empire on behalf of the owner or managers of *SuperToys Ltd* may be a motivating force for business expansion.
- Diversification. Spreading the risk by moving away from a company's core area of business is facilitated by business expansion. For example risk exposure for *SuperToys Ltd* to the flagging Irish retail market may be reduced by expanding into the UK market of 62 million people.
- Protecting essential stock of supplies. Reverse integration into the chain of supply may safeguard the *SuperToys Ltd* supply chain, guaranteeing a supply of stock for resale.
- Economies of scale. As a firm expands the costs fall because of bulk buying, savings in transport, lower storage costs etc. Lower costs mean cheaper goods, higher sales and more profits for *SuperToys Ltd*.
- By *SuperToys Ltd* merging with or taking over a competitor the business may eliminate a threat to its market share. Eliminating competition is often behind business expansion.
- Business expansion may allow *SuperToys Ltd* to acquire new technology and new products developed by competitors.
- Market for baby products/toys to some extent is recession proof.
- Profitability/financial strength.

(20 marks)

(60 marks)

