

Solutions to Additional Applied Business Questions Based on Units 4, 5 and 6 of the Leaving Certificate Examination 2017

Only key points are provided, students should develop these points to fully answer the question asked.

Answers given are not exhaustive, not all answers given would be required in examination.

Canvas and Sail Products

(a) Describe how John can identify new business opportunities from inside and outside the business.

Answer

Opportunities from inside (any four + link answer to questions)

Marks $7 \times 3 + 1 \times 4$

- 1 Invest in Research and Development
- 2 Encourage and seek staff suggestions (experienced and skilled workers)
- 3 Introduce incentives scheme for innovation among staff (profit-sharing)
- 4 Consult sales staff as they know the market
- 5 Check and note consumer feedback – may get ideas/suggestions
- 6 Develop teamwork structures generally to increase innovation
- 7 Develop team approach to coming up with new opportunities
- 8 Develop employee empowerment, this leads to innovation and intrapreneurship

Opportunities from outside (any four and link answer to questions)

- 9 Market research
- 10 Research and Development links with university – joint projects
- 11 Recruit new staff who are creative and can develop new product opportunities
- 12 Monitor competitor products – improve on their ideas
- 13 Foreign markets can often indicate new product trends which we can follow
- 14 Acquire new opportunities through any of the following: strategic alliances; buying patents, mergers, takeovers, franchises/licences
- 15 Import substitution – identify imported products that can he can make

(b) Analyse the benefits that the introduction of teamwork will bring to the business.

Answer

Any four points below

Marks $4 \times (3 + 2)$ which are 3 for the point and 2 for development.

- 1 Variety of skills and approaches from different departments brought to the task
- 2 Empowered teams have high motivation to complete tasks
- 3 Interaction of different team members can spark ideas – innovation

- 4 Team members gain high level of job satisfaction through success of their team – low staff turnover
- 5 Less demands on management time as teams are self-managing
- 6 High quality standards result.
- 7 Team specially selected to take on specific tasks

(c) Suggest a new ownership structure for the business. Contrast the possible benefits to the firm of this structure with the benefits of being a sole trader.

Answer

Any seven points from below, pointing out the contrasts.

Marks $7 \times (3 + 2)$, 3 for the point and 2 for making the contrast.

Suggested new structure: Private Limited Company (a co-operative or a Public Limited Company would also be acceptable with answer adjusted)

Benefits of Limited Company (contrast with sole trader)

- 1 Owners have limited liability
- 2 New shareholders bring additional finance.
- 3 New shareholders bring additional expertise, influence, and skills
- 4 Risks of business shared
- 5 Easier to get loans from banks
- 6 Continuity of the business if a shareholder dies.

Benefits of a sole trader (contrast with Limited Company)

- 7 The owner gets all the profits
- 8 The owner has full control
- 9 Quick decisions can be made, no consultation required
- 10 The business has privacy, does not have to disclose accounts
- 11 Easy, quick and cheap to set up.

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Service IT

- (a) Identify the market research methods employed successfully by Cora in the past and those which could make her business successful in the future.

Answer

Any six points below, two past and two future

Marks $5 \times 4 + 1 \times 5$

In the past

- 1 She used observation on a trip abroad to get her original idea.
- 2 Observation in her business to identify a market need.
- 3 Survey of home computer users
- 4 Customers asked for feedback
- 5 Reading business magazines

In the future

- 6 Desk research to identify towns big enough to support a franchise operation
- 7 Observation by visiting towns to identify locations and
- 8 Surveys by questionnaire of consumers in target towns.

- (b) Describe how Cora can manage the insurance risks she faces in order to keep her premiums as low as possible.

Answer

Any five of the following points

Marks: $5 \times (3 + 2)$, 3 for risk and 2 for how to manage.

Risk

- 1 Premises, fire etc.
- 2 Contents, stock
- 3 Cash being stolen
- 4 Vehicles, accidents
- 5 Public Liability
- 6 Product Liability
- 7 Goods in transit

Management

- 1 Fire alarm, smoke alarm, sprinkler system
- 2 Alarm systems, secure doors and windows, minimise value of stocks held
- 3 Safe, security systems including close circuit TV
- 4 Maintain vehicles, qualified trained drivers
- 5 Safety audits of premises, restrict public access
- 6 Quality standards, product testing
- 7 Minimise delivery times, minimise stock in vans, security procedures, alarms on vans.

(c) Evaluate the benefits of expanding the business through franchising compared to organic growth

Answer

Any five points from those below

Marks: $5 \times (3 + 3)$, 3 marks for benefit and 3 for comparison to organic expansion

- 1 Low capital investment – have to find a lot of capital
- 2 Low risk for franchise holder – Organic growth carries all the risk of each new outlet.
- 3 Allows rapid expansion – Organic limited to slower pace
- 4 Only small management team required – Organic requires large increase in staff and management
- 5 Development of strong national brand through advertising – Organic growth could only support local advertising for far branches
- 6 Profits increase in proportion to sales of each franchise outlet. Organic profits may be reduced by the expenses of the firm.
- 7 Successful franchise may have export potential. Organic growth would be much slower to realise export potential.

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Irish Farm Fertilizers

(a) Identify the strategies the management can use to deal with ongoing change in their business. Refer to the text above in your answer.

Any four points below, for other relevant answers, with reference to the text.

Marks: 4 × (4 + 2), 4 marks for each point and 2 for reference (where possible, otherwise development of point.

- 1 Managers move from controller to facilitator style, less resistance to change
- 2 Be proactive. Anticipate change and plan for it.
- 3 Develop a business culture which is open to change.
- 4 Provide training for management and staff in handling change.
- 5 Management should inform and consult with other stakeholders about change that will impact on them.
- 6 Introduce employee empowerment to improve employee response to change.
- 7 Develop teamwork structures which can specifically deal with changes that need to be implemented.
- 8 The Human Resource Manager can use Performance Appraisal with employees to regularly review the impact of change on their work.

(b) Evaluate the possible impact of Government activities, decisions and policies on Irish Farm Fertilizers Ltd.

Answer

Any five points from those below or other relevant

Marks: 5 × (3 + 3), 3 marks for point and 3 for explaining possible impact

- 1 Environmental standards – cost of meeting standards – inspections by Environmental Protection Agency
- 2 Health and Safety Standards – cost of meeting standards – particularly for a chemical industry
- 3 Location – government may assist location by designating areas suited to chemical industry, e.g. Ringaskiddy
- 4 Grant aid for set up of new plant or for feasibility studies or for training in new technologies

- 5 Low tax rates may attract companies like Growfast Ltd to take over and develop IFF Ltd.
- 6 Industrial relations laws make it easier for employer and workers to resolve disputes.
- 7 The development and maintenance of infrastructure (roads, ports, etc) is very important to firms like IFF Ltd.
- 8 Government agencies who may provide assistance, e.g. Teagasc, enterprise Ireland, I.D.A..
- 9 Local Authority services, water, sewage, waste removal, etc.

(c) Describe the benefits that training programmes and performance appraisal will bring to IFF Ltd

Answer

Six points from the following, minimum of two from training and two from performance appraisal.

Marks: $6 \times (3 + 2)$, 3 for point and 2 for development

Training

- 1 Development of skills
- 2 Increase productivity
- 3 Employees become multi-skilled – flexibility
- 4 Enable introduction of new technology or processes
- 5 Prepares staff to take on promotions
- 6 Improve quality of finished product

Performance Appraisal

- 7 Firm gets useful feedback and information from employees
- 8 Identify the training and development needs of workers
- 9 Identify specific problems experienced by workers
- 10 Identify achievements and suitable rewards for staff
- 11 Identify employees for promotion
- 12 Appraisal motivates staff and makes them more productive.

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Glenfada Village

- (a) Outline how community development activities assist the growth of enterprise in a village like Glenfada. Refer to the text above in your answer.

Answer

Any 5 points from those below

Marks $5 \times (3 + 2)$, 3 marks for each point and 2 for application to text.

- 1 Brings all individuals and organisations together to work together
- 2 People learn co-operation and management and other skills needed in enterprise
- 3 Community activities promote enterprise among the population
- 4 An audit of enterprise opportunities may be carried out
- 5 State agencies may be enlisted to assist and support enterprising activities such as FÁS, Enterprise Ireland
- 6 An Enterprise Centre is often set up as a focal point to serve the needs of new entrepreneurs.
- 7 Many people realise they have entrepreneurial skills through community development work

- (b) Analyse the short, medium and long-term finance needs of the leisure activities centre and the sources of finance they should use.

Answer

Marks: $3 \times (5 + 5)$, 5 marks to identify finance needs and 5 to identify sources

1 Short-term finance

Needs Finance to pay for wages, insurance, rates, materials, heat, light, power, i.e. day-to-day running expenses and materials.

Sources Credit from service suppliers, e.g. ESB, phone company, credit from materials suppliers.

Bank overdraft

Unpaid tax amounts, e.g. PAYE, VAT, PRSI

2 Medium-term Finance

Needs Purchase of equipment such as boats, sailboards, and other stocks of equipment. Purchase of vehicles, office furniture and office machinery. Any other needed

Sources Term loans used to purchase equipment
Purchase of assets under Hire Purchase arrangements
Requiring the use of assets by leasing them sometimes with an option to purchase.

3 Long-term Finance

Needs Large amounts of finance to fund the development of the land for leisure activities, for the building of the jetty, for building offices and other premises

Sources Their own capital which they can invest
Sale of shares to investors by setting up a limited company
Long-term bank loans, possibly using their land or other assets as security
Grants from some government agencies or perhaps the Leader fund of the EU

(c) Illustrate by the use of examples how good selection of staff can ensure the success of the business

Answer

Any five points from below and link each one to the success of the business

Marks 5 x (3 + 2), 3 marks for each point/example and 2 for link to success of the business.

- 1 Match employees selected to a clear person specification for each job, e.g. trained lifesaver to supervise water pool
- 2 Ensure that selection processes, interview, etc allow the best candidate to be selected for each job.
- 3 Ensure staff selected pass relevant experience, e.g. leading groups of climbers
- 4 Ensure staff have the necessary skills, e.g. fishing, sailing, etc.
- 5 Ensure staff have adequate fitness levels and are suited to active outdoor work
- 6 Ensure staff can relate to people well, necessary in leisure industry.
- 7 Ensure staff are interested and motivated by the work so that they will be good employees.
- 8 Ensure staff are not overqualified as they may not stay.
- 9 Select managers/supervisors with necessary skills and share activities.

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Irish Colourcraft Ltd

- (a) Describe the strategies that can make *Irish Colourcraft Ltd.* more ethical and socially responsible in the way it operates. Refer to the text above in your answer.

Answer

Five points from the list below with reference to the text in each case.

Marks 5 × (3 + 2), 3 marks for each point and 2 for referring to the test.

- 1 Management should take leadership role in being ethical and socially responsible
- 2 Management should set objectives and plan for the firm to be ethical and socially responsible.
- 3 Introduce a code of ethical behaviour for the firm
- 4 Set high quality standards for product and service, introduce TQM
- 5 Set minimum standards in relation to product safety
- 6 Reviews of treatment of workers regularly to ensure fair and respectful treatment
- 7 Ensure all laws and regulations are fully known and complied with
- 8 Take a proactive role in relation to environmental protection
- 9 Be open and transparent about the activities of the firm
- 10 Engage in dialogue with stakeholders in the firm
- 11 Conduct social audits of the firm's activities to identify issues which require action

- (b) Evaluate the benefits that empowerment and TQM can bring to the operation of the business.

Answer

Six points from those below or other relevant points

Marks 6 × (3 + 3), 3 marks for each point and 3 marks for development

Empowerment

- 1 Can unlock the talents of each employer and benefit from the full potential of each employee
- 2 Develops intrapreneurship
- 3 Increase employee ability to respond to change
- 4 Employee get increased job satisfaction

- 5 Increased motivation to complete tasks
- 6 Increased loyalty to the firm
- 7 Employees may develop so much that they can take on a promotion.

TQM

- 8 Improved product quality and customer satisfaction
- 9 Increased customer loyalty and repeat orders
- 10 Reductions in costs and wastage of materials
- 11 Firm can charge higher prices in line with product quality
- 12 Good company reputation can lead to new customer and new markets
- 13 TQM makes everyone in firm focused on common objectives.

(c) Identify two possible methods of expansion into European markets and compare the main benefits they offer the business.

Answer

Any five of the points below with development of the comparison of expansion methods

* Comparison of any two of the following methods of expansion

- (a) Own sales and distribution operation in each country
- (b) Enter alliance with a suitable firm in each market.
- (c) Appoint an agent firm to sell Colourcraft products in each market
- (d) Set up manufacturing units in each or some of the markets.
- (e) Franchise out the production and sale of the product range to firms in each country.
- (f) License the production of the range of products to a manufacturer in each market.
- (g) Take over or merge with similar firm in each market.

Examples

- (a) Own sales and distribution operation in each country.
 - (i) Maintain total control over the distribution and sale of products.
 - (ii) Retain all profits earned with the firm or group of firms.
 - (iii) Better communication and co-ordination between operations in different countries.
 - (iv) Direct contact developed with customers in new markets, better able to meet their needs.
- (b) Enter alliance with a suitable firm in each market.
 - (i) Costs of setting up in new markets are shared.
 - (ii) Partner in alliance has knowledge of foreign market
 - (iii) Shared control of project allows firm to protect its interests.
 - (iv) Direct contact with customer base is maintained.
 - (v) Sharing knowledge, expertise and resources with each alliance partner will benefit core business of the firm.

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Velvet Confectionery Ltd

(a) Identify the important elements of the marketing mix for the product they are selling.

Answer

Any three important elements required for each part of the marketing mix. Refer to the product in question.

Marks 8 + 8 + 7 + 7

Product

- 1 The product concept – how it meets consumers needs
- 2 Features of the product and unique selling points (USP)
- 3 Product design, appearance, appeal
- 4 Product's identify name, logo, brand, trademark
- 5 Packaging for protection, information, appeal

Price

- 6 Price as part of product image, high price equals high quality
- 7 Profitability – price must more than cover all costs of the firm
- 8 Pricing strategies – competitive, profit maximising (??), costs, plus profit, market share

Promotion

- 9 Advertising
- 10 Sales promotions
- 11 Public relations
- 12 Sponsorships
- 13 Direct marketing
- 14 Sales team
- 15 Internet marketing

Place

- 16 Channels of distribution, mix of different channels
- 17 Outlets convenient to the consumer
- 18 Transport methods that deliver on time and in good condition
- 19 In-store positioning
- 20 Point of Sale influence, display and advertising.

(b) Analyse the benefits that an effective stock control system can bring to a business like Velvet Confectionery Ltd.

Answer

Any five points from those below identifying the benefit in each case

Marks $5 \times (3 + 2)$, 3 marks for point and 2 for the benefit to the firm.

- 1 Ensures stocks are big enough to meet customer demand and avoid loss of sales
- 2 Ensures adequate stocks of raw materials so production can continue
- 3 Ensures stocks are not bigger than necessary so that storage costs are minimised, e.g. insurance, light, heat, power, security, etc.
- 4 Maintain stocks at optimum level to maximise productions and sales and at the same time minimise costs
- 5 Reduces stock losses due to goods going out of date, becoming obsolete or being stolen
- 6 Allows us to know when to order new stocks and how much to order
- 7 Allows us to monitor and control the movements of stocks in and out of the business.

(c) Describe how favourable economic factors would help the start up of the new business.

Any five of the following points stating why they would be favourable

Marks $5 \times (3 + 2)$, 3 marks for each point and 2 for development.

- 1 High levels of employment – result in high spending and demand for products
- 2 Low interest rates – result in low costs for borrowing for the business in a start-up situation
- 3 Stable exchange rates with currencies of export markets reduce dangers of exchange losses
- 4 Low inflation rates result in costs remaining low and lack of pressure from staff for pay rises
- 5 Lower inflation rates in Ireland compared to other countries will give a competitive advantage to the firm relative to foreign competitors
- 6 Low tax rates allow the firm to keep most of their profits for reinvesting in the growth of the firm.
- 7 Low tax rates on employees will reduce pressure for wage increases and keep costs down
- 8 Grants – help finance the business for premises, feasibility studies, staff training
- 9 Economic growth – will result in increases in demand, particularly for a luxury good.

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Celtic Aromatics Ltd

(a) Describe the challenges that the merger of the two firms would present to the Human Resource Manager of Celtic Aromatics.

Challenges – set up reward systems, solve existing industrial relations problems, make necessary redundancies, retraining of staff, possible loss of key personnel, to remove the suspicions of staff, building good relationship with trade unions, manpower planning for the future.

(b) Evaluate two other methods of rapid expansion open to Celtic Aromatics besides a takeover or merger.

Licensing production of their products to firms in foreign markets.

Enter more foreign markets, as they did in the French market.

Strategic alliances to attain strength in the Irish market or to enter new foreign markets.

(c) Discuss the importance of ethical behaviour and social responsibility for a firm like Celtic Aromatics Ltd.

- ◆ Improves the reputation of the firm and increases customer loyalty
- ◆ Avoids fines and penalties from breach of regulations
- ◆ Ethics and social responsibility can be a Unique Selling Point (USP)
- ◆ Good waste management and control can lead to savings on materials usage
- ◆ Can attract investment from ethical investment funds
- ◆ Increases motivation and job satisfaction among employees
- ◆ Can increase support for the firm from the local community

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Sac Designs Limited

- (a) **Analyse how good market research can ensure the successful marketing of the new product.**

Market research – will allow them to identify the target market, differentiate several target markets, identify product features customers want, find out price range for product, find out the size of the market, find out about competitive products.

- (b) **Evaluate how new management strategies can solve the firm's problems of poor quality management and lack of teamwork.**

Quality management – introduce quality control procedures, develop a total quality management approach, promote a quality culture in the business, conduct regular quality audits, work towards a quality mark such as ISO9000 or the Q mark, provide training to all staff on quality control, set up quality circles, empower staff in relation to improving quality, provide incentives to staff related to quality achievement.

Teamwork – introduce team structures into the organisation, apply good team selection procedures, provide training for staff on teamwork skills, nurture a teamwork ethos in the firm, use team participation to motivate staff, empower staff in managing their work through teamwork, teamwork will lead to creativity and new ideas from staff.

- (c) **Outline the steps in the process of appointing a new general manager and state how this will ensure that they will get the ideal candidate.**

1. **Prepare** a detailed job description and a person specification. Ensures that the person chosen will be right for the job they have to do.
2. **Find the candidates** by advertising, headhunting, contacting university graduates by using the internet or employing a recruitment agency. Ensures they get enough well qualified candidates applying for the job.
3. **Screen the candidates** by drawing up a shortlist of the best applications based on letters of application and Curriculum Vitae. Ensures that the best applicants get to interview stage.
4. **Select a candidate** based on interview, IQ, aptitude or personality tests. The selection panel ensure that the person chosen is the best available to do the job.
5. **Check references** to ensure they are reliable.
6. **Contract of employment** is issued after job is offered and accepted.

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Excel Print Plc

- (a) Analyse how better working capital management could improve the liquidity position of Excel Print plc.**
- 1 Improve stock control – reduce stock held and increase cash (improve acid ratio).
 - 2 Improve credit control, paying creditors more slowly than debtors pay the firm (will improve cash and liquidity position).
 - 3 Improve credit control on debtors to minimise bad debts (maintains value of debtors in accounts).
 - 4 Use stock control to minimise stock losses due to deterioration or theft (maintains stock value).
 - 5 Careful cash budgeting can ensure that cash outgoings will match cash incoming and that the liquidity position will stay healthy.
 - 6 Should check if available working capital is enough to support the levels of sales and production. Additional working capital may have to be provided through long term finance.
- (b) Identify two ways of improving the gearing position of Excel and explain the consequences of any actions taken.**
- 1 Sell additional shares and use money raised to pay off loans. Consequence – control over the firm may be diluted.
 - 2 Sale and lease back of the premises to eliminate loans. Consequence – firm can use the asset but does not have ownership.
 - 3 Apply to the government for grant aid towards the building of the premises – use grant to reduce loans. Consequences – government may set conditions for giving the grant, eg, providing more jobs.
 - 4 Withhold dividend payments and use retained profits to reduce the level of loans. Consequence – investors may be unhappy and sell shares.

(c) Draft a report from Maria Tabor to the board of directors

1. Identifying the qualities of good financial information
2. Evaluating the benefits of improved financial information systems to the firm.

Benefits of improved financial information systems:

- 1 Better decision making based on good information.
- 2 Information is continuously updated and recorded.
- 3 Planning for the future can be based on historical information which is reliable.
- 4 Past performance can be properly assessed.
- 5 Company accounts can be produced to a high standard.
- 6 Quality information allows problem areas to be identified and solutions to be worked on.

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Una Hilliard

- (a) Contrast Una’s role in managing the tax and insurance affairs of her household with those of her new business.**

Tax – household – PAYE tax only (deducted at source) vs business (deduct and record PAYE and PRSI for staff, record and make returns for VAT if applicable, return her own income tax as self-employed person including preliminary tax).

Insurance – household (insurance for building and contents only) vs business (insurance for car, house, premises and contents, public liability, employee liability, fidelity guarantee).

- (b) Analyse how Una should develop the marketing mix for her new service to make it successful. (30 marks)**

Marketing mix

Product – mix of product/services on offer, target market, name/brand/identity, packaging/presentation.

Price – premium price, profitable, cover costs, price discrimination OAPs, group discounts, family tickets.

Promotion – advertising leaflets, garden magazines, local radio, yellow pages, internet homepage, open-day, special offers.

Place – local signposts, through travel agents, tourist information offices, local B&Bs, gardening clubs, schools.

- (c) Compare the benefits for Una of operating her business as a sole trader with forming a limited company. (30 marks)**

Benefits of sole trader

- ◆ There are no legal formalities in setting up a sole trader business
- ◆ The sole trader can operate their business as they wish
- ◆ They do not have to share control or profits with others
- ◆ Details of the business do not have to be published

Benefits of a limited company

- ◆ The shareholders have limited liability for the debts of the business
- ◆ The business can access additional capital by selling more shares to the shareholders
- ◆ Additional owners can bring new expertise to the running of the business
- ◆ Limited companies have better credit ratings and can borrow from banks more easily