



Introduction to Business

NQF

Subject Examiner's Report

Unit Title: Introduction to Business

Unit Code: 1.1 IB

NQF Level: Certificate

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Question 1

(a) Explain the differences between the following types of production systems:

- (i) Job and batch production
- (ii) Cell and lean production

(6 marks)

(6 marks)

(b) A car manufacturer is planning the introduction of a Just-In-Time (JIT) production management system for its assembly line.

- (i) Define the term Just-In-Time (3 marks)
- (ii) Explain **three** advantages and **three** disadvantages that the firm might experience with the introduction of such a system. (10 marks)

Mark scheme

(a) Award up to 2 marks for defining both of the terms plus an extra 1 marks for explicit or implicit differences. If defining only one term a maximum of 2 marks for that term. Reward the use of relevant examples with up to 1 mark each term, but remember there is a six mark maximum for each section.

(i) Features of Job production might include:

- The making of a unique item e.g. a road bridge, an office building or a wedding dress.
- The task normally requires the use of general-purpose tools or machinery
- Operated by a highly skilled work force
- The unit cost is quite high
- There is unlikely to be a repeat order.

Batch production might include:

- Making a number of standardised items aimed at a more general market
- A number of items or 'batch' completes each process before passing onto the next production stage.
- Longer production run allows the use of special purpose machines.
- Example of batch production - making garments of different sizes and colours.

Differences between the two systems are:

- The type of product made
- The machinery used
- The skill level of the work force needed
- The unit cost.
- The product is a 'one-off' in job production whereas a standard product is made by the batch method.
- Versatile machinery used in job production but is more specialised for the larger quantities required in batch.
- Labour is more skilled for the job method

(ii) Cell production:

- Splits a continuous-flow production line into self-contained units.
- Each cell will produce a significant part of the finished product
- Cell members feel 'ownership' of their complete unit of work.
- Each cell passes on their 'product' to the next cell thus creating an internal chain of customers.
- This method not only drives up productivity but also improves quality as the cell has pride in satisfying its customers.

Lean production:

- Is a series of management techniques intended to make efficient use of a firm's resources thus reducing 'waste'.
- It includes kaizen, benchmarking, and just-in time production methods.
- Needs multi-skilled workers in order to carry out a variety of activities to meet customer needs in the shortest possible time.
- Tend to produce to order in contrast to the old mass production technique that produced for stock
- Reduces the need to keep large stocks of raw materials, work-in-progress and finished goods thus minimising the level of working capital required.

They are both means of improving flow production.

(b) Up to 3 marks for defining JIT. 1+1 marks for each advantage or disadvantage fully developed to a max of 10 marks in total

'Just-in-Time' (JIT) manufacturing is a production system under which raw materials, work-in-progress and finished products are delivered at the precise time they are needed.

Advantages to a manufacturer from the introduction of JIT include the following:

- Improved cash flow since money is no longer tied up in stocks
- Reduced waste from obsolete or damaged stock
- Reduced cost of handling stock (space, shelving, security, store personnel etc.)
- Less space required for stock holding therefore more available for production
- Relationships with suppliers is improved
- More scope for use of computerised information system to improve integration of departments
- Workforce are given more responsibility and encouraged to work in teams or 'cells'. This should improve motivation.
- The manufacturer should be able to meet deadlines sooner and make deliveries on schedule

Disadvantages associated with the introduction of JIT include:

- The need for reliable and flexible suppliers who can deliver on time despite the heavy traffic associated with a large city
- Increased ordering and administrative costs
- The process is more at risk of supply breakdown
- Economies of scale such as bulk buying might be lost
- Requires highly skilled planning and control

Total Maximum Marks for Q1

25 marks

1. Comments on learners' performance

This question was generally poorly answered with many candidates having very limited knowledge of production methods which limited the amount of marks they obtained in part (a). Most candidates had some knowledge of 'just-in-time' production but many answers lacked depth in part (b) which was a 13 mark question. It is important candidates develop their answers for questions carrying more marks. The few candidates that did score well were able to explain the differences between the different production methods, define and were able to evaluate (i.e. explain the advantages and disadvantages) 'Just-in-Time' management system.

2. Recommendations

There will always be a question on production methods and it is important candidates are aware of the different types together with an understanding of their advantages and disadvantages. If a case scenario is used in the question it is important candidates link their answers to the scenario to gain those extra marks.

Examiner's tips

In a 3 part question it is important your answer reflects the number of marks available for each part. For example a 10 mark question should have more depth in an answer than say a 3 mark question.

Question 2

- (a) Explain the differences between the following marketing terms:
- (i) A niche market and a mass market (4 marks)
 - (ii) Promotion and Place (4 marks)
 - (iii) Demand based pricing and competition based pricing (4 marks)
- (a) Define the term 'market segmentation'. (3 marks)
- (b) Using an example, explain how the consumer market could be segmented. (10 marks)

Mark scheme

(a) Award up to 4 marks for each pair of terms. Maximum of 2 marks if no explicit or implicit differences identified.

(i) A 'niche' market is:

- relatively small and identifiable segment of a larger market
- appeals to small firms as they are often overlooked by large scale producers
- are therefore less competitive
- allows small firms to charge higher prices as the consumers are willing to pay a premium for what they perceive to be a more unique product or service e.g. 'made to measure' clothing.

In contrast a mass market is:

- the group of consumers who are the majority buyers for common household products i.e. they could be tagged as being "average"
- this group consists of a wide variety of people their desires towards a certain product may be totally different from each other
- often competition to supply the mass market is fierce
- relatively easy to enter because of the large amount of consumer pool available
- there is little scope for differentiation in a mass market e.g. petrol, baked beans etc.

(ii) 'Product promotion' is:

- a means of boosting a product's sales as part of the marketing mix
- a combination of advertising, branding, sales promotion and public relations can be used to influence consumer opinions and buying habits.

'Place':

- represents the location where a product can be purchased
- often referred to as the 'distribution channel'
- can include any physical store such as a corner shop, supermarket or department store as well as virtual stores on the Internet.

(iii) Competitor pricing or competition based pricing:

- involves setting a price for a product or service based on the prices charged by competitors
- the market usually has low product differentiation where all producers are basically price takers e.g. the market for petrol

Demand-based pricing is:

- a pricing method based on the intensity of demand rather than the costs of production and distribution
- relies on being able to segment the market
- able to apply price discrimination. An example might be rail or air travel where consumers are differentiated by class of seat or time of travel.

(b) Award up to 3 marks for definition

Market segmentation is concerned with analysing a market to identify the different types of consumer. These subgroups of people share certain characteristics that cause them to have similar product and/or service needs. By matching the consumer categories to types of product different 'niches' can be identified and supplied. Segmentation can be by demography (age, social class, gender etc.), psychographically (by attitude and tastes) or geographically (by region).

(c) Award 1 mark for identifying each type of segmentation and up to a further 2 marks for explanation and examples to a maximum of 10 marks.

The market for shoes can be segregated according to:

- Gender – not only are the size of shoes different for males and females but also the preferred styling.
- Age – the market can be divided in to sections for infants, children, teenagers and adults.

- Lifestyle – Even within a single age category there will be many different segments to cater for the many styles e.g. business shoes, trainers, casual shoes etc.
- Purpose – Consumers desire shoes for specific purposes such as sport, hiking, working or relaxing.
- Socio-economic status – within one category different shoes can be made to cater for the wealth of the customer. This is usually achieved by the use of different materials, styling, manufacturer and branding.

Total Maximum Marks for Q2

25 marks

1. Comments on learners' performance

This question was generally well answered with candidates having a good knowledge of the marketing terms used in all parts of the question. Candidates that obtained high marks were able to explain the differences between the marketing terms mentioned and in part (c) were able to use a relevant example relating to a consumer market e.g. the shoe industry and link this to segmentation. However some candidates lost marks in part (c) as they confused 'segmentation' of a market with the 4 P's (price, place, product and promotion). This meant 10 marks were lost.

2. Recommendations

It is important that candidates revise and be able to define all business terms which are mentioned in the syllabus.

Examiner's tips

Make sure you understand the meaning of 'segmenting' a consumer market and think how various markets could be segmented. Often an exam question asks you to use an example of your choice.

Question 3

(a) Explain each of the following financial terms:

- (i) Gearing (3 marks)
- (ii) Working capital (3 marks)
- (iii) Budget (3 marks)
- (iv) Net profit (3 marks)
- (v) Current assets (3 marks)

(b) For each of the following situations, explain what the most suitable source of finance is:

- (i) A company wishing to expand its fleet of cars (5 marks)
- (ii) A company with a cash flow problem is having difficulty collecting from debtors. (5 marks)

Mark scheme

(a) Award up to 3 marks for each term fully defined.

- (i) Gearing measures the proportion of capital employed that is provided by long term lenders. The gearing ratio is given by the equation:
$$\text{Gearing} = \frac{\text{Long term liabilities}}{\text{Total Capital Employed}} \times 100$$
- (ii) Working capital is the day-to-day finance required to run a business. It is the finance required to pay for raw materials, running costs, labour and to finance credit offered to customers.
- (iii) A budget is a financial plan for a specified future period of time. A master budget combines the forecast income from sales together with forecast expenditure. This can be used to determine a forecast cash flow statement as well as a forecast profit and loss account.
- (iv) Net profit is sales revenue less all the operating costs of production including indirect costs such as insurance, rent and advertising. Accept Gross Profit less indirect costs such as insurance, rent and advertising for 2 marks.
- (v) Current assets are anything owned by a business that is likely to be turned into cash during the year. Typical current assets are stock, debtors and cash.

(b) Award 1 mark for a suitable choice of finance and up to 4 marks for expansion

- (i) The upgrading of vehicles can be viewed as a long-term project that requires a long-term injection of capital. Leasing or bank loan should be the candidates' favourite choice but allow share issue as an alternative solution
 - Bank loan – a loan for at least five years to enable the expansion to generate sufficient profits to repay the interest and capital. Security would be required and capital repayments made over the life of the loan together with interest payments at the current commercial rate.
 - Leasing - A leasing company can provide a business with new assets such as vehicles without having to buy them outright. The leasing company 'rents' the assets to the business for an agreed monthly payment. At the end of the leasing period the vehicles are returned to the leasing company and can be replaced with more modern versions. This allows a business to renew its vehicles without having to find large amounts of capital.
 - Share issue – as a limited company the business could issue further shares either existing shareholders or new investors. This will dilute the ownership of the business but it provides a permanent injection of capital without the need for interest or capital repayments. Investors would, however, expect a return on the investment in the form of dividends.
- (ii) Allow one mark for explaining what a cash flow problem is. Ideally candidates should recommend factoring as the preferred method but reward other short or medium term solutions where suitably explained.
 - Award one mark for identifying 'factoring' as a solution and up to 4 marks for a correct description. Where the debtors are reliable it is possible to use factoring to solve the problem. A factor is a specialist company that provides finance for up to 85% of a firm's debts. In return the factor collects the total debt when due, subtracts its charges and pays the balance to the firm. This allows a business access to the majority of its cash immediately.
 - Negotiating longer trade credit. This will allow a firm to receive goods and materials for an agreed period without payment. The aim is to collect money from debtors before the creditors require payment.
 - Approaching a bank for an overdraft. Interest is only paid on the amount used and is a flexible source of cash. However, it is an expensive form of finance and can be recalled on demand by the bank

- Making an extra effort to contact all outstanding debtors and chasing overdue payments.

Total Maximum Marks for Q3

25 marks

1. Comments on learners' performance

Not many candidates attempted this question, but those that did had a very poor understanding of the different financial terms mentioned in the question. Many candidates just guessed at the terms and marks gained were extremely low. Candidates also generally did not understand what 'sources of finance' were.

2. Recommendations

There is always a question on financial terms and how sources of finance can be applied to different scenarios. It is important that candidates can define these terms and apply the different sources of finance to different scenarios, and understanding the advantages and disadvantages of each source of finance that organisations can use.

Examiner's tips

If you learn and be able to define finance terms this will generally be sufficient to gain a 'pass' in a finance question.

Question 4

- (a) Explain what is meant by the following terms:
- (i) Job enrichment (3 marks)
 - (ii) Job shadowing (3 marks)
 - (iii) Labour turnover (3 marks)
 - (iv) Workforce planning. (3 marks)
- (b) A business is considering the introduction of a training programme to produce its own supply of skilled workers. Discuss the benefits **and** disadvantages of establishing such a training programme. (13 marks)

Mark scheme

- (a) Up to 3 marks for a detailed explanation of each term.
- (i) Job enrichment aims to motivate employees by giving workers the opportunity to use a wider range of abilities. It is based on the work of Herzberg who suggested an enriched job should contain a range of tasks and challenges, a complete unit of work that would provide greater satisfaction and direct feedback on employee performance. The range of tasks is extended vertically, to enrich the quality of the job for the worker.
 - (ii) Job shadowing (or work shadowing) involves a trainee learning the job by watching an experienced operative or post holder. The trainee is placed under the guidance of an experience manager who provides instruction, advice and counselling. Coaching and mentoring help trainees to set and achieve targets, identify learning opportunities and build on experience.
 - (iii) Labour turnover is the 'rate' at which employees leave an organisation's workforce over a period of time. It is calculated using the equation:
Number of employees leaving in a period/Average number of employees in a period.
Award marks for development (e.g. causes or effects of labour turnover).
 - (iv) Workforce planning (or human resource planning) sets out to ensure the organisation has the right quantity of workers and quality of workers doing the right things at the right time and at the right cost. Workforce planning should facilitate the acquisition, utilisation, development and retention of an organization's human resources.
- (b) Reward each valid benefit or drawback of a training programme with 1 mark plus up to 2 development marks. The benefits and drawbacks can be for either the organisation or the individual

One benefit of a training programme for the business could be improved efficiency where the employee is better able to complete a task successfully in a given period of time. This will improve productivity and lead to lower unit costs. Similar arguments can be made for reduced wastage and re-working, a more flexible workforce, greater customer satisfaction and ultimately higher sales and profits. Benefits for the individual include improved skill levels, competency, higher self-esteem, motivation and morale.

One of the main drawbacks of training is the cost. This includes not only the direct cost of the training but also the lost production that the worker would have contributed. Where training is provided internally there is also the overhead cost of the training area as well as the running costs of the training department including salaries and training materials. In cases leading to external qualifications there might be also examination and resource material costs. Once trained the employee might be tempted to join a rival firm for higher wages.

Total Maximum Marks for Q4

25 marks

1. Comments on learners' performance

Many candidates attempted this question with mixed results. Those candidates that scored well were able to define the HR terms and were able to discuss the advantages and disadvantages of a training programme. Those candidates that scored poorly made guesses of the different HR terms and their answers for part (b) lacked the depth and analysis for a 13 marks question.

2. Recommendations

It is important that candidates can define the different HR terms in the syllabus and be aware that if a question is worth 13 marks answers must reflect this. A few sentences in your answer will not generally be sufficient to gain high marks for a 13 mark question.

Examiner's tips

Be aware of the number of marks available for each part of a question and make sure your answer reflects this. 13 mark questions are quite common so be sure your answers have more depth.

Question 5

- (a) Explain three business objectives for different organisations. **(9 marks)**
- (b) Explain the difference between shareholders and stakeholders. **(4 marks)**
- (c) A business is investing half of all future profits in expanding the Research and Development department. Discuss how this might affect the objectives of the following groups:
- (i) Shareholders **(4 marks)**
 - (ii) Employees **(4 marks)**
 - (iii) Competitors **(4 marks)**

Mark scheme

- (a) Award up to 3 marks for a well explained objective with a mark for each valid point.
- (i) The objective of a not-for-profit organisation such as a charity might be to raise funds for a specific cause such as cancer research and to do so they minimise costs.
 - (ii) A family business' objectives might be to provide employment for family members, a reasonable level of profit and continuity of business for future generations.
 - (iii) A PLC's (public limited company main objective is to generate profits for its shareholders while at the same time satisfying other interested stakeholders such as customers and suppliers.
- (b) Award up to 3 marks for defining both of the terms plus an extra 1 mark for explicit or implicit difference. If defining only one term a maximum of 2 marks. Reward the use of relevant examples. Maximum 4 marks,
A stakeholder is any individual or group that has an effect on or is affected by a business or organisation. This might include groups such as employees, owners, trade unions, customers, pressure groups and competitors. Some management theorists believe that it is beneficial in the long run for firms to recognise the views of these groups and to include their objectives in the decision making process. A shareholder, however, is a part owner of a business who has invested funds in the purchase of firm's shares. Shareholders have a right to vote and to attend the annual general meeting. The profits are distributed among shareholders in the form of dividends.
- (c) Award up to 4 marks for the impact on each group ensuring that it is R&D related.
- (i) The modern economy is dynamic with constant change in consumer tastes and demand as well as changes in processes, materials and technology. Investment in Research and Development is one way that a business can ensure its long-term survival in this type of environment. However, investing funds in R&D means that short-term profits will suffer thus reducing the dividends available. Shareholders with a short-term view will be opposed to heavy investment whereas shareholders with a long-term view will welcome the investment as a means of ensuring market power in the future.
 - (ii) Employees would welcome, in general, investment in R&D as it would help to secure a company's future and hence safeguard employment. Successful investment should help to improve profits and lead to further expansion. This could result in improved wages and working conditions as well as new job opportunities.
 - (iii) Competitors would view the increased spending on R&D as a threat to their market share. The result of such a large increase in research is likely to be new products, new processes or new materials, any of which could result in falling costs, new marketing opportunities or new products for their rival. The likely response is a boost to their own spending on R&D so as not to be out maneuvered in the market place.

Total Maximum Marks for Q5

25 marks

1. Comments on learners' performance

This question was generally poorly answered. In part (a) many candidates did not understand what business objectives were. Many candidates mentioned the 4P's as objectives which was not correct. These are marketing strategies. In part (a) the question also asked for business objectives for different organisations. Many candidates just selected one type of organisation. Part (b) was generally well answered. Part (c) was worth 12 marks and many candidates' answers did not reflect this. Also many candidates ignored the scenario i.e. 'expanding the Research and Development department'.

2. Recommendations

'Business objectives' form part of the syllabus. Make sure you understand the type of business objectives each type of organisation can have e.g. a not-for-profit organisation might have an objective to raise funds for a specific cause whereas a PLC's main objective will be to generate profits for its shareholders. Also make sure your answer reflects any business scenarios used in the question.

Examiner's tips

Make sure you fully understand the question and what the examiner is looking for in each part of the question.

Question 6

- (a) Explain each of the following terms:
- | | | |
|-------|-----------------|-----------|
| (i) | Primary sector | (3 marks) |
| (ii) | Private sector | (3 marks) |
| (iii) | Tertiary sector | (3 marks) |
| (iv) | Public sector. | (3 marks) |
- (b) A successful sole trader wishes to expand and is considering forming a partnership with three life-long friends. Assess the advantages **and** disadvantages for the sole trader of forming a partnership. **(13 marks)**

Mark scheme

- (a) Up to 3 marks for each term fully explained with relevant examples.
- (i) The primary sector is concerned with the extraction or creation of raw materials. Examples include all forms of mining (such as gold, copper and coal), agriculture, oil extraction, fishing and forestry.
 - (ii) The private sector is that part of the economy concerned with transactions made by private individuals, businesses and institutions. The businesses are owned and managed on behalf of the owners and shareholders where the principal task is to make profit.
 - (iii) The tertiary sector is that part of the economy comprising of businesses that supply services, such as insurance, transport and banking.
 - (i) The public sector of an economy is that part owned and directed by the government on behalf of the people. The public sector's main role is to provide public services such as health care, law and order, defence and education.
- (b) Up to 3 marks for each advantage or disadvantage fully explained. Development marks available for comments in context.
- Forming a partnership is one method of expanding a business. The main advantages of a partnership are:
- There can be division of labour between the partners so that each can specialize and benefit from each other's expertise.
 - More capital can be introduced in to the business by adding new partners
 - Decision-making can be shared
 - Partners can develop interchangeability so that one partner can substitute for another in times of illness or holiday
 - In this specific case the sole trader is forming a partnership with a lifelong friend who should therefore be trustworthy and easy to work with.
- The main disadvantages are:
- General partners have unlimited liability and therefore are responsible for all debts
 - The withdrawal or death of a partner may dissolve the firm
 - Decision-making may be slow as all partners must agree. Shared control means the possibility of disagreements and delays.

Total Maximum Marks for Q6

25 marks

1. Comments on learners' performance

Generally this question was well answered with candidates having an understanding of the different business sectors and the differences between a sole trader and partnership. However in part (b) some candidates did not read the question carefully. It was asking for the advantages and disadvantages of a partnership. Many candidates wasted time by also giving the advantages and disadvantages of a sole trader.

2. Recommendations

It is important that candidates fully understand the different types of business structures e.g. sole trader, partnerships, PLC's etc. and be able to quote the advantages and disadvantages of each structure.

Examiner's tips

Read the question carefully before attempting and after you have written your answer re-read the question and make sure your answer has covered all parts of the question

Question 7

- (a) Using examples, discuss how political, social and technological factors might affect business organisations. **(13 marks)**
- (b) Explain how a UK based global airline might be affected by the following changes in the economic environment:
- (i) A rise in UK interest rates **(4 marks)**
 - (ii) A fall in the exchange rate of the £ sterling **(4 marks)**
 - (iii) A world-wide recession **(4 marks)**

Mark scheme

- (a) Up to 5 marks for each factor correctly explained, to a maximum of 13 marks overall.
- (i) Political – governments impose regulations on business that must be adhered to. These cover health and safety issues, consumer protection, advertising standards, employment conditions and environmental factors. These will increase the costs of business. Governments also influence business through the tax system. Indirect taxes make the goods more expensive for the consumer while subsidies reduce the market price. Other influences include items such as planning permission, incentives for location or the promotion of exports.
 - (ii) Social – A business must be aware of changes in society. Demographic changes will affect demand in different sectors. The ageing population in Europe has led to greater demands for healthcare and nursing homes. As societies grow wealthier the population spends a greater proportion on leisure pursuits such as foreign holidays, sports and pastimes. Changes in public attitudes can also affect a business. The public are more environmentally aware and are not prepared to buy products and services that are considered antisocial e.g. items made from endangered species such as elephant ivory and rhino horn.
 - (iii) Technological – Technological changes affect not only the production process but also the range of products that are possible. The microchip has led to the miniaturization of many products while the development of plastics has revolutionized the style of products and their cost. The media industry has witnessed vast changes with the advent of miniaturized music systems, flat screen televisions and satellite broadcasting. A business must be aware of changes otherwise it will lose market share to competitors that are more technologically advanced.

(b) 2 marks for identifying correct impact plus 2 marks for development, examples, and comments in the context of airline travel.

(i) Usually a rise in interest rates will reduce the disposable incomes of families living in the UK which might affect the level of spending on luxury items such as holidays. In this case businesses in the airline will experience a fall in the number of customers and in sales income. However, if the passengers on the airline are mainly from abroad the rise in rates will have no effect on them. Also if it is an airline targeting high end travelers and wealthy individuals the rise in rates might have no affect at all. Businesses everywhere in the UK will experience higher finance charges for any borrowing they make which could result the airline charging higher fares or accepting lower profit margins.

(ii) A fall in the exchange rate of the pound will make the airline's fares appear cheaper to foreign travelers. This should encourage more foreign passengers resulting in a positive effect on sales. However, one of the airline's main costs is fuel which is sold on the international market in US\$ resulting in rising costs due to the weaker pound.

(iii) Generally a world-wide recession results in a fall in demand for all goods and services. This might significantly affect expenditure on non-essential items such as global flights both UK residents and foreign travelers. The result is likely to be a fall in passenger numbers and a squeeze on profit margins. It could result in fewer flights and the elimination of some destinations.

Total Maximum Marks for Q7

25 marks

1. Comments on learners' performance

This question was not a popular question and many candidates ignored it. Those candidates that did attempt the question generally scored poorly. In part (a) there was confusion between the different factors mentioned. In part (b) candidates' answers generally showed a lack of understanding of basic economics. Also answers did not take into consideration the case scenario i.e. a UK based global airline. The few

candidates that did score well had a good understanding of PEST analysis, and in part (b) were able to link their answers to the case scenario.

2. Recommendations

There will always be an 'economics' style question in the exam paper and a question relating to PEST analysis. It is important that candidates understand basic economics terms and how these can impact on a business.

Examiner's tips

Be able to define basic economics terms and be able to apply PEST analysis to different types of industries.

Question 8

- (a) A UK car manufacturer is considering opening an assembly plant in Africa. Discuss the factors that might influence the choice of location. **(15 marks)**
- (b) For such a business, explain five costs associated with holding large quantities of stock. **(10 marks)**

Mark scheme

- (a) Award up to 4 marks for each fully developed location factors to a maximum of 15 marks overall.

The main factors that would influence the location decision of a large car manufacturer are:

- Availability of land – a large assembly plant requires a significant area of reasonably priced land not only for storage of components but also for parking of finished cars. Most car assembly plants are single storey buildings therefore a flat area would be the most suitable
- Closeness to final market – locating a plant in Africa is obviously meant in the first instance to supply the regional market. Being close to final customers will reduce the overall transport costs.
- Suitable transport links – a large assembly plant must have good road, rail and sea links for easy access for its suppliers as well as for distribution of finished cars, especially if they are being exported to other parts of Africa.
- Availability of labour – an assembly plant requires a large number of semi-skilled and skilled workers. It is unlikely that suitable labour already exists in Africa therefore there will be the need for in-house training which will be time consuming and expensive. The compensating factor will be the lower unit labour cost of employing local staff.
- Political stability – this will be a major factor as no company will be willing to invest very large sums of money unless they are convinced that the country is stable.
- Government incentives – one of the attractions of Africa could be generous tax incentives for new companies. This would allow the company to enjoy a tax free or a low tax environment for the early years of the investment.

- (b) Award up to 2 marks for each cost to a maximum of 10 marks overall.

There are a number of costs associated with holding large amounts of stock. The most common are:

- Interest charges – all stock represents funds tied up in the business. Stock financed by borrowing obviously incurs interest charges. However, so does stock financed by the business' own funds because if they were not tied up in stock they could be earning interest in the bank. Obviously car components and finished vehicles are expensive items.
- Rent – stocks have to be stored and will occupy floor space that incurs rent charges.
- Staffing – all stocks need to be looked after and secured. The business will have to employ warehouse staff, security staff and stock clerks to control the stock.
- Equipment – components for cars will require shelving, containers, and fork lift trucks for ease of movement. In some plants automatic conveyor systems are used which are in themselves expensive pieces of machinery.
- Theft and damage – Even when security is tight theft of finished vehicles is still possible. Poor supervision and handling of the cars can also result in damage.

Total Maximum Marks for Q8

25 marks

1. Comments on learners' performance

This question was a popular question but unfortunately answers were generally quite poor. Part (a) was worth 15 marks and answers generally lacked the depth and analysis for a 15 mark question. Some candidates just gave 'bullet points' which meant that limited marks were gained. Again many candidates ignored the case scenario i.e. 'a UK car manufacturer in Africa'. Part (b) answers were generally reasonable with most candidates understanding costs associated with holding large amounts of stock. Candidates that did score well made sure their answers reflected the case scenario.

2. Recommendations

Again it is important that answers reflect the amount of marks available. Bullet points can be used for say a 3 mark question, or if you are running out of time. However in a 15 mark question you will not achieve high marks as the examiner is looking for you to develop each part of your answer.

Examiner's tips

Make sure you can develop your answer for questions carrying more marks e.g. 10 and 15 mark questions. If you can't perhaps select a different question.