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90844



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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Business Studies 2024

90844 Demonstrate understanding of how a large business responds to external factors

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of how a large business responds to external factors.	Demonstrate in-depth understanding of how a large business responds to external factors.	Demonstrate comprehensive understanding of how a large business responds to external factors.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL parts of the task in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

Do not write in the margins (// // // //). This area will be cut off when the booklet is marked.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Excellence

TOTAL 08

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TASK

This task has four parts, (a) to (d). Use the background information below, the supplementary information in the other boxes, and your business knowledge to complete this task. You may integrate any relevant Māori business concepts into your answers.

You should read the resource information in ALL of the boxes before beginning the task.

Background information

CeeGee's is a clothing store located in a city in the North Island that caters for 30- to 50-year-old professionals who work in the central business district. *CeeGee's* stocks a range of men's and women's business suits, shirts, and ties, which are made overseas and imported into New Zealand by sea freight. The suits are a common international design that can be found in many other countries.

The retail clothing industry is a competitive market, with businesses experiencing declining sales, increasing rents, and increasing overseas resource costs, such as materials.

"Customs duties are to be increased to reflect inflation on 1 October 2023 and 1 July 2024."

(Note: Customs duties are indirect taxes on imported goods.)

Source: <https://www.customs.govt.nz/about-us/news/important-notice/#:~:text=Customs%20goods%20fees%20are%20to,2023%20and%201%20July%202024>

You may choose EITHER *CeeGee's* OR a large business (more than 20 employees and / or with a national or regional significance) operating in New Zealand that you have studied in depth.

- (a) With reference to TWO specific functions of the business, such as marketing, sales, production, and / or human resources, explain how an increase in customs duties could impact the business.

B I U

An increase in customs duties (or tariffs) on imported goods will increase the costs that *CeeGee's* has to pay for importing their suits, shirts and ties.

This will increase costs for *CeeGee's*, reducing profit margins. This may affect sales as *CeeGee's* will have decreased profit margins and may increase the prices of their goods to be able to stay profitable and ensure that their business viability is not harmed. However this may impact *CeeGee's* sales as fewer customers will be willing to pay a higher price for their suits and may lose customers to other firms who also sell the same imported suits as they are a common international design. This could decrease sales for the firm, harming their profitability for the future.

Additionally this will also affect production for *CeeGee's* as they will have to pay more to import the same amount of clothing, decreasing their cash reserves in the short to medium term as these clothes are transported via sea freight and may take time to be delivered. As a result the firm may not have the cash to launch into new ventures for this time if any opportunities arise or be able to expand and increase production if demand increases. This could also lead to *CeeGee's* not having enough capital to pay unexpected costs such as rising rent prices until they receive the suits and are able to earn their money back. This could threaten the businesses profitability and could lead to them going into debt.

CeeGee's may also have to spend more on marketing as they are also experiencing declining sales. They would most likely advertise on social media such as Instagram or Facebook as it is what their target demographic uses. This would also increase costs and would incur non-tangible costs such as mental stress and time to come up with creative adverts to attract consumers in a saturated market, competing with firms that could also sell identical imported clothing. This increases costs, and further decreases profits for *CeeGee's*.

Carl, the store owner, has recently had a visit from a local manufacturer who is trying to convince *CeeGee's* to start selling their New Zealand-made business suit, which is produced using sustainable material, even though it will be higher in price than the international brand that *CeeGee's* currently stocks.

Carl is conscious of the impact this could have on the stakeholders in his business, including (but not limited to) customers, staff, the bank where he has a loan, local suppliers, and the landlord of the shop he is renting.

CeeGee's prides itself on meeting societal expectations of being a responsible business. This means it operates efficiently and ethically, meeting and exceeding what is required by law. The business always considers its impact on people (staff and community) and the environment.

You may choose EITHER *CeeGee's* OR a large business (more than 20 employees and / or with a national or regional significance) operating in New Zealand that you have studied in depth.

- (b) (i) Explain why using a local manufacturer, rather than importing their products from overseas, could be an advantage for the business in meeting societal expectations for the environment.

B *I* U

Importing goods from overseas has many environmental impacts as there is a lot of carbon being emitted due to the freight shipping and could be made less sustainably in countries with less strict environmental laws and don't display Kaitiakitanga. Using a local manufacturer means that *CeeGee's* has a Unique selling point that they could use to market their product and attract customers that care about locally-produced goods and want their money to help out local firms and businesses. Additionally as these suits are made using sustainable materials, this offers *CeeGee's* another selling point to attract the Eco-conscious consumer. Societal expectations, especially in New Zealand lean heavily towards being environmentally friendly and preserving out natural landscape as well as adhering to Maori values such as Kaitiakitanga. As the firm is now meeting society's expectations, customers may be more willing to pay increased prices and may advertise the firm via word of mouth giving them praise, enhancing their reputation in the community. This could also lead to the firm having a greater market share which could mean more sales for *CeeGee's*.

- (ii) Explain, with TWO solutions, how a business could manage the possible increased costs of using a local manufacturer.

B *I* U

One way that the firm could manage the possible increased costs is to pass on the increased costs to consumers and advertise their products as being more expensive because they are locally-produced and sustainable. This could justify the increased costs for consumers and may mean that the consumer is less worried about paying more for the suit because they know that it is being produced with the environment in mind and that their money is benefiting a local manufacturer. This solution could work as *CeeGee's* target demographic are 30-50 year old professionals who most likely earn a high-income and will be able to pay the higher costs. This ensures that the firm is still receiving desired profit margins and is able to continue operating in the future.

Another way that they could manage the possible increased costs is to try and cut costs in other areas. This could mean moving into new premises with a lower rent so that the firm has lower fixed costs and profit margins are not as nearly affected. Having a lower rent may mean that the firm would now be located in a less populated area or have a smaller shop area. However, if the firm continues to advertise themselves and focus on their two new unique selling points, customers will be more willing to drive an extra five minutes to purchase higher-quality and Eco-friendly suits. As costs are now reduced *CeeGee's* profit margins increase and their profitability is enhanced.

- (iii) Justify whether changing to a local manufacturer aligns with societal expectations of responsible business practice by considering the impact on at least TWO different stakeholders of the business.

B I U     

Changing to a local manufacturer most definitely aligns with societal expectations of responsible business practice. Local suppliers such as the one wanting Carl to start selling their New Zealand produced suits benefit as they now have a retailer to sell to and their goods and designs are being advertised to the market. This stakeholder is positively impacted by this choice and their profitability is also enhanced as they also experience an increase in sales by selling to CeeGee's. Society wants to support manufacturers in local community first compared to other international manufacturers and would expect CeeGee's to make this choice as they are supporting another local business which could provide more jobs in the community for the manufacturing of the goods and the harvesting of the materials.

The local customers are also affected as they would now be paying relatively more for a product that serves the same purpose. This means that fewer returning customers may be willing to pay the increased prices, while there may also be more loyal customers who are in support of local businesses and the environment. Customers in the local community will benefit as switching to a local manufacturer could mean more jobs in the market and more economic growth in their area. However, this may also negatively impact these customers, who are between 30-50 years old, as it may mean more people come and move into their local city which could mean a bigger population, more traffic, higher house prices and rental prices. However, this impact is longer-term and is also a positive for society as a whole as more economic activity is able to take place. But in the short term society's expectations are met and the firm is seen as responsible as they are seen as valuing the community - which includes the customers - and CeeGee's is seen as a responsible business.

Carl employs university students during the summer holidays to do stocktakes and to clean up the storeroom. Carl pays these students on an hourly basis as and when they are needed. Recently, one of the students has complained to Carl about being underpaid for their hours worked compared to what their contract states.

Carl has always made a point of sitting with his employees and going through the contract before it is signed to make sure it is fair, matches the needs of his employees, and is understood.

DEFINITION

Tikanga – Values, rules, priorities, and ways of doing business. A set of values that constitutes a uniquely Māori approach to doing business. It specifically incorporates Māori diversity, kinship and relationships, and guardianship, and therefore does not focus solely on producing a profit for the owners/ shareholders.

You may choose either **CeeGee's** or a large business (more than 20 employees and / or with a national or regional significance) operating in New Zealand that you have studied in depth.

(c) (i) Why is it important for the business owner to ensure that all employees have an employment contract?

B I U     

Having a written employment contract is required by law under the Employment Relations Act (2000). So ensuring that all employees have an employment contract ensures that CeeGee's does not suffer from any legal repercussions such as fines. Additionally, it reduces the chances of disputes between the employer and their employees as all terms are in the contract so both parties have to oblige to them. This also means that the employee knows what their requirements of their job position are and are able to negotiate for their terms as well and have the business meet these negotiated terms. This helps to ensure that for Carl, his employees are meeting their job specific requirements and are not exploiting CeeGee's out of wages.

(ii) How does creating a contract in consultation with the employee provide an opportunity for the business to practice tikanga?

B I U     

Creating an employment contract in consultation with the employee shows that CeeGee's is practicing tikanga as it shows that the firm values all employees and doesn't just use them for profit. Being flexible with the contract means that the employee is seen as part of the business and part of the "family" and not just an external worker. This fosters a positive and uplifting relationship between the employee and Carl, where he is not focused solely on profit but prioritises the wellbeing and the needs of his employees, showing that he and his business are practicing Tikanga.

DEFINITION

Demographic change in sales refers to how customers might differ over time. Examples might be changes in number, age, ethnicity, gender, income, beliefs, wants, or values.

Carl has noticed a demographic change in sales where a younger clientele has come into the store asking for more smart casual wear rather than the traditional suit. Carl is reflecting on how this will affect his business and what decisions he might need to make because of this demographic change.

In the boxes below, enter the details of a large business (more than 20 employees and / or having a national or regional significance) operating in New Zealand that you have studied in depth. **Do not use CeeGee's.**

Name of the large business:

Under Armour

Good(s) sold or service(s) provided:

Athletic Clothing and Apparel

(d) (i) Identify a demographic change and explain why it may have an impact on sales.

B I U     

A changing demographic is younger people (under 40) demanding less traditional athletic clothing and more comfortable and "athleisure" clothing that can be used both when working out and worn at home or worn in public. Since Under Armour sell mainly purely athletic clothing a change in consumer preference could severely reduce sales and the business may lose customers to other clothing brands that offer Athleisure clothing.

(ii) Explain TWO actions the business could take to ensure economic sustainability when dealing with the demographic change.

B I U     

One action that Under Armour could take is to develop a new line of clothing that meets this demand such as more stylistic gym clothing that can also be worn in public and apparel that has a multitude of uses and is also comfortable for the wearer. This requires a vast amount of investment into Research and Development (R&D) when creating these products and could require a large upfront capital investment with out a guarantee that the products will sell. The firm is essentially taking a huge gamble on this new clothing line. However, this could be helped with surveys and market research into consumer preference and what style are currently selling and are popular. This would decrease the businesses cash reserves for the time that the clothing is being produced and developed which could limit them from making any other major ventures. However as Under Armour is a large business this would not affect operations too much.

Another action that Under Armour could take is to keep their existing clothing lines, and instead launch a new AD campaign promoting their athletic clothing. As this is towards a younger demographic, they would sponsor influencers and creators in the digital landscape as well as taking out advertisement on social media such as Instagram, TikTok and Facebook. However Facebook is mainly used by the older generation, while the other two are more popular with younger people. Advertising campaigns also require a lot of money and there is not a 100% guarantee that this ad campaign will reside with customers and change their appearance.

(iii) Justify, with TWO reasons, why one action would be better for the business to implement than the other.

B *I* U     

Being innovative and listening to market trends by updating their clothing line-up is a much better action for Under Armour to undertake.

Firstly, Under Armour is creating a brand image of being progressive and keeping up with trends and changing preferences. This means that customers think more positively about Under Armour and are more likely to be loyal even if a new trend comes out, knowing that the firm will respond to the new trends and these customers would wait and purchase their clothing from the brand that they are loyal to. This uplifts the firm's reputation, which could mean that they will essentially receive "free advertising" on social media or via word of mouth from people posting about themselves trying on the new clothing line-up or wearing the clothes (which are currently in fashion) out in public, spreading out Under Armour's brand image and name which can attract more customers. This leads to more customers finding out about the firm and purchasing their apparel to "keep up with trends" which basically means that Under Armour can profit from the trends, enhancing their viability and profitability.

Next, once the Research and Development costs are finished, Under Armour is left with a new product which only has costs of production to produce. Whereas advertising has recurring costs either monthly or weekly on different landscapes which means that the firm constantly has to pay large amounts in advertising, which could further deplete cash reserves if the campaign does not work. There is a similar risk with developing a whole new line of clothing, but most of this risk is mitigated by primary and secondary research which can tell the business on what kinds of clothing are more popular and how to divest the investment. For example, tracksuits and hoodies may be more popular than t-shirts and zipper jumpers so the firm develops more hoodies than t-shirts. This means that once the original capital investment is over, the firm is able to recover from increased sales, possibly by artificially inflating prices as these goods are popular and high in demand which will then allow them to refill their cash reserves and be ready for the next market trend.

This is why adapting to market trends and developing a new product line is a better action for Under Armour to take as it is much better for the business's long-term success and profitability to its shareholders.

Excellence

Subject: Business Studies

Standard: 90844

Total score: 08

Q	Grade score	Marker commentary
One	E8	<p>The candidate fully explained how using a local manufacturer instead of importing aligns with societal expectations for environmental sustainability.</p> <p>Two solutions were discussed for managing the increased costs of local manufacturing – passing on costs to consumers, and reducing operating expenses.</p> <p>The response also justified how switching to a local manufacturer aligns with responsible business practices by considering its impact on key stakeholders: positive impact on local workers, potential negative impact on customers, and positive impact on local manufacturers.</p> <p>The candidate fully explained how demographic shifts can significantly impact sales, with two specific strategies – developing a new clothing line, and implementing targeted social media advertising.</p> <p>The candidate gave a justified conclusion in favour of updating the clothing line as the more effective strategy for long-term success.</p>