

Assessment Schedule – 2013

Business Studies: Demonstrate understanding of the internal operations of a large business (90843)

Evidence Statement

Q 1	Sample answers
(a)	<p>Sales have increased by a greater amount than Gross Profit. Net Profit has actually decreased. <i>Skate Goat Pizza Ltd</i> may be making more sales, but it is actually making less profit for its owners.</p> <p>OR</p> <p>Net Profit has fallen, which may mean that Tāne and Henare will receive a lower return on the money and time they have invested in the business.</p>
(b)	<p><u>Selling price of pizzas</u></p> <p><i>Skate Goat Pizza Ltd</i> may have increased its pizza prices to increase sales, or it may have lowered its prices to increase the volume of sales (Explained), leading to a less than proportional increase in Gross Profit (Fully explained).</p> <p><u>Marketing expenses</u></p> <p><i>Skate Goat Pizza Ltd</i> may have increased spending on marketing its pizzas. This has increased sales (Explained), but the increase in sales has not been sufficient to cover the increase in marketing expenses (Fully explained).</p>
(c)	<ul style="list-style-type: none"> • Budget variances allow Tāne and Henare to compare the actual performance of <i>Skate Goat Pizza Ltd</i> to the expected performance. This enables them to highlight areas of good performance and areas of under-performance. Tāne and Henare can use this information to improve decision-making and plan for the future. • <i>Skate Goat Pizza Ltd</i> has a negative budget variance of \$15,000 for gross profit. This has been caused by an increase in the costs of goods sold, ie costs incurred in making the actual pizzas (Explained). The cost of raw materials (fresh ingredients) used to make the pizzas has increased (Fully explained). <p>Solution 1: Tāne and Henare could find a new supplier who has lower costs for the fresh pizza ingredients. This would reduce the Cost of Sales (Explained) and the budget variance, leading to improved gross profit (Fully explained).</p> <p>Solution 2: Tāne and Henare could increase the price of their gourmet pizzas, which may increase <i>Skate Goat Ltd's</i> sales revenue (Explained). This would increase gross profit and correct the budget variance (Fully explained).</p> <p>Solution 3: Tane and Henare could negotiate with their existing supplier to fix the prices of their ingredients. This may negate any seasonal variations when purchasing fresh produce (Explained). This would reduce the cost of goods sold, leading to increased gross profit (Fully explained).</p> <p>(Accept candidate responses that address the cost of goods sold – eg lean production or training of staff in more efficient procedures to reduce wastage of ingredients.)</p> <p><u>Justification for choice of solution</u></p> <p><i>Solution 1</i></p> <p>It would be better for <i>Skate Goat Pizza Ltd</i> to find a new supplier of fresh pizza ingredients. This is because if it increased pizza prices to cover the increased costs of fresh ingredients, it may experience a decrease in sales revenue (Explain). Customers may choose to purchase gourmet pizzas from competitors, leading to a decrease in market share for <i>Skate Goat Pizza Ltd</i>. Finding a cheaper supplier would reduce sales costs and the budget variance (Fully explained).</p>

<p>Finding a new supplier may present opportunities for <i>Skate Goat Pizza Ltd</i> to negotiate cheaper deals. It could negotiate discounts through promotional synergies, bulk buying, or a guaranteed contract to buy fresh ingredients (Explained). In return, the new supplier may offer discounted fresh ingredients, thus decreasing the costs of making pizzas and increasing <i>Skate Goat Pizza Ltd's</i> gross profit (Fully explained).</p> <p><i>Solution 2</i></p> <p>It would be better for <i>Skate Goat Pizza Ltd</i> to increase the selling price of its gourmet pizzas, as buying lower-priced ingredients could reduce the quality of their pizzas (Explained).</p> <p>As <i>Skate Goat Pizza Ltd's</i> point of difference is gourmet pizzas made from fresh ingredients, it is important that it maintains this unique selling point (Fully Explained).</p> <p><i>Skate Goat Pizza Ltd's</i> customers may be less sensitive to pizza price increases, as they are selling high-quality gourmet pizzas (Explained). <i>Skate Goat Pizza Ltd</i> could increase the price with relatively less impact on quantity of pizzas sold (Fully explained).</p>

Achievement				Achievement with Merit		Achievement with Excellence	
<ul style="list-style-type: none"> Explains why Tāne and Henare may be concerned with the financial situation. Explains how the situation in Table 1 may have arisen. Explains the importance of using budget variances. Explains the budget variance. Explains TWO possible ways to correct the budget variance. <p>(Answers will typically state relevant examples, business knowledge, and / or Māori business concepts.)</p>				<ul style="list-style-type: none"> Fully explains how the situation in Table 1 may have arisen. Fully explains the budget variance and TWO ways to correct the variance. <p>(Answers will typically include relevant examples, business knowledge, and / or Māori business concepts.)</p>		<ul style="list-style-type: none"> Fully explains the budget variance and TWO ways to correct the situation. <p><i>AND</i></p> <ul style="list-style-type: none"> justifies the better way to correct the variance, with TWO reasons. <p>(Answers will typically integrate relevant examples, business knowledge, and / or Māori business concepts into explanations.)</p>	
N1	N2	A3	A4	M5	M6	E7	E8
Very little achievement evidence.	Some achievement evidence.	Most achievement evidence.	Nearly all achievement evidence.	Some merit evidence.	Most merit evidence.	All points covered. One part may be weaker.	All points covered.

N0 = No response; no relevant evidence.

Q 2	Sample answers
(a)	<p><i>Skate Goat Pizza Ltd</i> would like to contribute positively to the iwi (tribe) and the wider community. One way it could achieve this is by employing three young workers. <i>Skate Goat Pizza Ltd</i> could provide training, good working conditions, and a career path. By doing this, <i>Skate Goat Pizza Ltd</i> is demonstrating corporate social responsibility. The opportunity given to the young people would positively influence other young Māori who are interested in a career in food.</p> <p>Owners Tāne and Henare are descended from the local iwi and value the importance of reciprocity (manaakitanga) – giving something back to society. They want to build a reputation for treating customers, employees, and suppliers with great respect. They respect all their stakeholders.</p>
(b)	<p>Philanthropy specifically involves <i>Skate Goat Pizza Ltd</i> donating profits, resources, or services to non-profit organisations, eg donating a portion of profits to a local non-profit organisation. Corporate social responsibility involves <i>Skate Goat Pizza Ltd</i> adopting responsible / ethical behaviour throughout its business that takes into account people, profit, and planet (triple bottom line) – for example, hiring young Maori workers (Explained).</p> <p>Both philanthropy and corporate social responsibility involve giving something back to society. However, they differ in what is required. Philanthropy can be strictly an executive (individual) decision, with owners deciding how much to donate /give in grants. Corporate social responsibility requires a company-wide effort, with all employees being involved. Effective corporate social responsibility involves balancing the needs of all stakeholders, including owners (profit), social (community), environmental, and ethical considerations (Fully explained).</p>
(c)	<p><u>Sample Answers:</u></p> <p><u>Examples of corporate social responsibility for the named business could include:</u></p> <p>Tree-planting, improving the working life of employees through opportunities and training, good working conditions, buying from local (NZ) suppliers, reducing pollution or waste or restricting greenhouse emissions. Donations, aid or sponsorship of local soccer team. Being ethical, like acting truthfully and disclosing relevant information.</p> <p><u>Full explanation for why a business engages in corporate responsibility</u></p> <p>The business believes it is good to give something back to society, so they look for opportunities to be involved with activities that improve the welfare of the community (Explained).</p> <p>The business could gain from better relations with the community, suppliers, and customers. Corporate social responsibility may increase brand loyalty, and the business may experience an increase in sales, because the customer’s values may match the business’ values (Fully explained).</p> <p>The business could experience some positive publicity (Explained).</p> <p>Corporate social responsibility could be incorporated into the business’ marketing strategy to promote a better image for the business.</p> <p>This will attract more customers, as the business has a point of difference, increasing market share and revenue (Fully explained).</p> <p>Attract and retain quality employees, as they value the company image (Fully explained).</p> <p><u>Justify, with examples, why your named business must balance the needs of corporate social responsibility with their own profit-making requirements</u></p> <p>Most businesses recognise their responsibility to groups / stakeholders other than the shareholders / owners when making decisions. Businesses are responsible to all their stakeholders. However, even large businesses have limited resources. Good businesses ensure there is a balance in meeting all stakeholder needs. For example, employees, community, investors, and suppliers all benefit when a business acts in an ethical and responsible manner. Businesses are also responsible to those stakeholders who expect a return on their investment (profit), ie the owners and shareholders.</p> <p>Examples could include:</p> <ul style="list-style-type: none"> • Sometimes, meeting the needs of one group may conflict with those of another, eg profits and corporate social responsibility could be seen as opposites (Explained). As funds are limited, greater corporate social responsibility (which can be an expense for businesses) may mean lower profits for owners /

<p>shareholders.</p> <p><i>OR</i></p> <p>A business that is socially responsible could generate greater profits for the business (Fully explained).</p> <ul style="list-style-type: none"> • The community may be in conflict with a business, eg they want them to reduce the amount of waste / pollution that the business is creating (Explained). The community may feel that the business is not reducing its pollution / carbon footprint, and is therefore impacting on the future wellbeing of its people. Possibly polluting streams. The business could decide to work with the community to support a local charity / do tree-planting to offset carbon emissions, or donate to neighbouring schools. This would attempt to repair / build relationships between the business and the community (Fully explained). <p>Overall, the best strategy could be a balanced approach to both corporate social responsibility and profits, as this meets the needs of shareholders and other stakeholders alike (Justified).</p>
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Achievement				Achievement with Merit		Achievement with Excellence	
<ul style="list-style-type: none"> • Explains why <i>Skate Goat Pizza Ltd</i> has decided to train the three young chefs. • Explains the difference between <i>Skate Goat Pizza Ltd</i> exercising corporate social responsibility and philanthropy. • Identifies and explains ONE example of corporate social responsibility for the named business. • Explains why the named business engages in corporate responsibility. • Explains why the named business needs to balance corporate social responsibility with their own profit-making requirements. <p>(Answers will typically state relevant examples, business knowledge, and / or Māori business concepts.)</p>				<ul style="list-style-type: none"> • Fully explains the difference between <i>Skate Goat Pizza Ltd</i> exercising corporate social responsibility and philanthropy. • Fully explains why the named business engages in corporate social responsibility. <p>(Answers will typically include relevant examples, business knowledge, and / or Māori business concepts.)</p>		<ul style="list-style-type: none"> • Fully explains why the named business engages in corporate social responsibility. <p><i>AND</i></p> <ul style="list-style-type: none"> • Fully explains and justifies the need to balance corporate social responsibility with their own profit-making requirements (TWO examples given). <p>(Answers will typically integrate relevant examples, business knowledge, and / or Māori business concepts into explanations.)</p>	
N1	N2	A3	A4	M5	M6	E7	E8
Very little achievement evidence.	Some achievement evidence.	Most achievement evidence.	Nearly all achievement evidence.	Some merit evidence.	Most merit evidence.	All points covered. One part may be weaker.	All points covered.

N0 = No response; no relevant evidence.

Q 3	Sample answers
(a)	<p><u>Fully explain how <i>Skate Goat Pizza Ltd</i> can grow internally:</u></p> <p>Internal growth involves <i>Skate Goat Pizza Ltd</i> using its own resources within the business to expand its existing operations. Internal growth normally takes significant time (Explain).</p> <ul style="list-style-type: none"> • <i>Skate Goat Pizza Ltd</i> could expand by reducing its pizza prices. This could be achieved by finding cheaper suppliers, upgrading technology, laying off staff to reduce the wage bill, or reducing energy costs by turning off appliances that are not in use. This will increase sales revenues and volumes, and hopefully market share. • <i>Skate Goat Pizza Ltd</i> could open more stores in other cities. For example, enter a new market (outside Wellington). One way of achieving this is through franchising. <i>Skate Goat Pizza Ltd</i> could invite franchisees to buy into its business idea. The franchisee benefits from using the brand name, established systems, training, and equipment. For <i>Skate Goat Pizza Ltd</i> franchising provides an effective way of expanding internally. • <i>Skate Goat Pizza Ltd</i> could undertake a new marketing campaign. It could launch a new pizza, offer website deals, or actively promote its brand. This would increase brand awareness, increase sales, build word of mouth reputation, and hopefully improve profits in the long run. • <i>Skate Goat Pizza Ltd</i> could diversify by selling other products such as garlic bread, French fries, drinks, pasta, etc. These products could be sold through existing distribution channels, and provide additional revenue streams.
(b)	<p><u>Short-term consequence for <i>Skate Goat Pizza Ltd</i></u></p> <p>To purchase <i>Green Fingers Ltd</i> or merge with the other pizza company will require a substantial investment and an increase in debt for <i>Skate Goat Pizza Ltd</i>. It will need to make interest repayments to the bank, which would increase its expenses and could affect its cash flow negatively. (Could accept, new organisational structure with reason.)</p> <p><u>Fully explain the consequences of this expansion option for <i>Skate Goat Pizza Ltd</i> employees (if <i>SGP Ltd</i> selects the merger option)</u></p> <ul style="list-style-type: none"> • Becoming part of a large firm may affect the sense of teamwork that existed at <i>Skate Goat Pizza Ltd</i>. The merging businesses may have different cultures, resulting in culture clashes among the two sets of employees (Explained). This may cause demotivation of some workers (Fully explained). • Some employees may lose their jobs, or may have to re-apply for their jobs, as <i>Skate Goat Pizza Ltd</i> attempts to cut costs by eliminating the duplication of support roles, especially in management, human resources, and accounting (Explained). This may have a demotivating effect on the remaining employees, and may lead to a decrease in productivity (Fully explained). • Some employees may have the opportunity to learn new skills and retrain, as new positions and more formal lines of communication and decision-making become necessary, because of <i>Skate Goat Pizza Ltd's</i> larger business (Explained). This can increase motivation and lead to an increase in productivity (Fully explained). <p><u>Justify, with reasons, why this option would be more appropriate than the other option</u></p> <p>Option 1: Taking over <i>Green Fingers Ltd</i></p> <p>The take-over of <i>Green Fingers Ltd</i> would be better than merging with a competitor. This is because <i>Skate Goat Pizza Ltd</i> can guarantee the supply of fresh ingredients for its pizza production (Explained). The company can have more security over the supply chain, thus increasing efficiency and quality. Absorbing <i>Green Fingers Ltd's</i> profit margins may cut costs for <i>Skate Goat Pizza Ltd</i> and increase its gross and net profits.</p> <p>Merging with a competitor may stretch the limited resources of <i>Skate Goat Pizza Ltd</i>, as now it will become larger. A larger business can be more difficult to control and manage effectively. Additional layers of management may need to be created, and spans of control may widen. Communication problems may emerge and face-to-face communication may be replaced with more formal methods. Quality control problems may emerge. The two pizza businesses may have different organisational cultures, and their workers may be resistant to change.</p>

Taking over *Green Fingers Ltd* would allow *Skate Goat Pizza Ltd* to diversify into another market aside from pizza. This means that if sales in the pizza market fall, or if a new competitor enters the market, Tāne and Henare can divert its resources to concentrate on supplying ingredients as opposed to relying on just the pizza industry. This gives *Skate Goat Pizza Ltd* an alternative revenue stream and allows it to sustain profits if the pizza market is depressed.

Option 2: Merging with a competitor

Merging with a competitor would be better than taking over *Green Fingers Ltd*. This is because *Skate Goat Pizza Ltd* will now be larger, output should increase, and *Skate Goat Pizza Ltd* can benefit from economies of scale (Explained), such as cheaper bulk purchasing of supplies. *Skate Goat Pizza Ltd* should achieve some reduction in costs by eliminating duplication of resources such as sales, distribution, and marketing overheads. It should also be able to rationalise fixed assets and increase production capacity. By joining with a competitor, *Skate Goat Pizza Ltd* can benefit from cost synergies. By eliminating a competitor, *Skate Goat Pizza Ltd's* share of the pizza market in Wellington will increase, and this will improve its sales. Overall, more customers will be buying from *Skate Goat Pizza Ltd* than before. *Skate Goat Pizza Ltd* will own a larger share of the pizza market, which will give it more control and the ability to negotiate better deals with its suppliers and distributors. In the longer term, sales, profits, and brand image should all improve.

This would be better than taking over *Green Fingers Ltd*, as that would mean moving away from its core business of making and selling pizzas. Also, *Skate Goat Pizza Ltd* may not have the expertise to run *Green Fingers Ltd* (ie grow vegetables) effectively.

Achievement				Achievement with Merit		Achievement with Excellence	
<ul style="list-style-type: none"> Explains internal growth. Name and explain TWO examples of internal growth for <i>Skate Goat Pizza Ltd</i>. Explains a short-term consequence of the selected option for <i>Skate Goat Pizza Ltd</i>. Explains the consequences of the expansion option for employees. Explains advantages of the selected option. <p>(Answers will typically state relevant examples, business knowledge, and / or Māori business concepts.)</p>				<ul style="list-style-type: none"> Fully explains how <i>Skate Goat Pizza Ltd</i> can grow internally, giving TWO examples. Fully explains the consequences of the selected expansion option for <i>Skate Goat Pizza Ltd's</i> employees. <p>(Answers will typically include relevant examples, business knowledge, and / or Māori business concepts.)</p>		<ul style="list-style-type: none"> Fully explains the consequences of the expansion option for <i>Skate Goat Pizza Ltd's</i> employees. <p>AND</p> <ul style="list-style-type: none"> fully explains and justifies why this option would be more appropriate than the other option for <i>Skate Goat Pizza Ltd</i> (TWO reasons given). <p>(Answers will typically integrate relevant examples, business knowledge, and / or Māori business concepts into explanations.)</p>	
N1	N2	A3	A4	M5	M6	E7	E8
Very little achievement evidence.	Some achievement evidence.	Most achievement evidence.	Nearly all achievement evidence.	Some merit evidence.	Most merit evidence.	All points covered. One part may be weaker.	All points covered.

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Judgement Statement

	Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
Score range	0 – 6	7 – 12	13 – 18	19 – 24
Codes				
U	=	Evidence of Achievement		
I	=	Evidence of Merit		
J	=	Evidence of Excellence		