**LEAVING CERT BUSINESS**

**THE HIGHER OPTION**

**www.leavingcertbusiness.com**

**EXAM PLAN**

|  |  |
| --- | --- |
| **Time** | **Exam Plan** |
| **9:30** | **Read the paper and Do SAQs** |
| **9:50** | **ABQ** |
| **10:40** | **First Long Question** |
| **11:15** | **Second Long Question** |
| **11:50** | **Third Long Question** |
| **12:25** | **Final Sweep of Paper** |
|  |  |

**Short answer questions 13% of the Higher-Level paper**

**Advice**

* **“Over answer” the definitions questions.**
* **Always label diagrams.**
* **Write true or false in FULL.**
* **Use examples when required.**
* **Answer 4 out of 12 questions.**

|  |  |
| --- | --- |
| USEFUL ACRONYMS |  |
| **AGM:**Annual General Meeting | **PAYE:**Pay as you earn |
| **APR:**Annual Percentage Rate | **PLC:**Public Limited Company |
| **AOB:**Any Other Business | **PPSN:**Personal Public Service Number |
| **ATM:**Automated Teller Machine | **PR:**Public Relations |
| **BEP:**Break Even Point | **PRO:**Public Relations Officer |
| **BIK:**Benefit in Kind | **PRSI:**Pay Related Social Insurance |
| **CAP:**Common Agricultural Policy | **R&D:**Research and Development |
| **CCPC** Competition and Consumer Protection Commission | **ROCE:**Return on Capital Investment |
| **CEO** Chief Executive Officer | **ROI:**Return on Investment |
| **CFF:**Cash Flow Forecast | **SEM:**Single European Market |
| **CFP:**Common Fisheries Policy | **SWOT:**Strengths, Weaknesses, Opportunities, Threats |
| **CGT** Capital Gains Tax | **TNC:**Transnational Company |
| **CPI:**Consumer Price Index | **TQM:**Total Quality Management |
| **CRO** Companies Registration Office | **USC** Universal Social Charge |
| **DAC** Designated Activity Company | **VAT:**Value Added Tax |
| **DIRT** Deposit Interest Retention Tax | **WCM:**World Class Manufacturing |
| **ECJ:**European Court of Justice | **WRC:**Workplace Relations Commission |
| **ERDF:**European Regional Development Fund | **WTO:**World Trade Organisation |
| **EDI:**Electronic Data Interchange |  |
| **EGM** Extraordinary General Meeting |  |
| **EPOS:**Electronic Point of Sale |  |
| **EMU:**Economic and Monetary Union |  |
| **ESF:**European Social Fund |  |
| **FDI** Foreign Direct Investment |  |
| **GDPR** General Data Protection Regulation |  |
| **HRM:**Human Resource Management |  |
| **IBEC:**Irish Business and Employers Confederation |  |
| **ICT:**Information Communications Technology |  |
| **ICTU:**Irish Congress of Trade Unions |  |
| **IDA** Industrial Development Authority |  |
| **IFA:**Irish Farmers Association |  |
| **ISME** Irish Small and Medium sized enterprise |  |
| **ISO:**International Standards Organisation |  |
| **JIT:**Just-in-time |  |
| **LEO** Local Enterprise Office |  |
| **MBO:**Management Buy out |  |
| **MNC:**Multinational Company |  |

The following is a very useful list of core definitions as per the Business syllabus.

The bolded words are key words to the definition.

The advice on the margins is also very important.

**The A TO Z OF BUSINESS DEFINITIONS**

|  |  |  |
| --- | --- | --- |
| Terms | **Meaning** | **Unit** |
| *Acid test ratio* | This is used to measure cash flow in a business. Its formula is: Current assets – Closing Stock Current Liabilities Ideally the answer should be 1:1, which means that for every euro that **falls due in the short term**, there is one euro to meet it. | Unit 4 |
| *Acquisition* | Is the overall term for procuring another business. It is the purchase of one company by another. E.g. The purchase of Jurys Inn by Lone star funds for €911m | Unit 5 |
| *Advertising* | Is the communication of information about a product or service to the general public in the hope of selling the good or service It can inform, persuade or remind | Unit 5 |
| *Agenda* | Is a list of items to be dealt with at a meeting - the agenda should be relevant to those at the meeting | Unit 3 |
| *Agreement* | This is the first element of contract law. One party makes a proposal to give or do something, which is called an offer and the other party replies with a positive unqualified assent to all terms of the offer. This is called acceptance. | Unit 1 |
| *Arbitration* | This is a method of solving conflict between parties. An independent party acts like a referee and listens to both sides of the argument before the arbitrator (referee) finds an independent solution to the dispute e.g. an arbitrator’s solution was rejected by the Association of Secondary Teachers of Ireland, as it offered less than the original pay claim. | Unit 1 |
| *Articles of Association* | Are the internal rules and regulations of the company.  It contains details of the following.   * Share capital breakdown. * Voting rights attached to each share. * Procedure for calling a meeting | Unit 6 |
| *Batch production* | Is the making of a limited group of identical goods. The goods are in various sizes. Production is interrupted and goods are kept in stock e.g. tins of beans. | Unit 5 |
| *Branding* | Is the use of a legally registered name as a trademark, which gives exclusive rights to the owner. A brand creates a myth of superiority in the consumers’ mind, which means that the consumer is willing to pay more for the good or service. | Unit 5 |
| *Break-even* | Is a production position where the firm makes neither a profit nor a loss i.e. total cost = total revenue It is part of product pricing. | Unit 5 |
| *Business plan* | Is a document, which maps out a business future under a series of headings. It guides the firm towards its targets. It is used to attract investors. | Unit 5 |
| *Capacity to Contract* | This contract element is the power of a natural person to enter into a contract. It means being legally able to enter a contract.  Persons under 18 do not have this power or people who are not of sound mind or those under the influence of alcohol or illegal drugs. | Unit 1 |
| *Cash flow forecasts* | Cash flowsshow the difference between money flowing in and money flowing out of a business or household. A forecast shows a firm’s cash position in the future | Unit 5 |
| *Categories of industry* | Refer to the industrial divisions in an economy i.e. **primary, secondary, and tertiary**. In Ireland, the tertiary sector is the most important. | Unit 6 |
| *Channel of Distribution* | Is the means of getting the goods from the producer to the consumer e.g.  Manufacturer-------------------------------------------🡪 Consumer  This is normally used for expensive specialist products e.g. fitted kitchens. This is also called direct selling. | Unit 5 |
| *Community enterprise* | Refers to the promotion of a proactive and entrepreneurial mentality in the local economy. It reduces the dependence on multinational investment. It uses a bottom-up approach self-help policy and a social and economic perspective. | Unit 6 |
| *Conciliation* | This method of conflict resolution is used to solve conflicts in the workplace. An independent third party, usually an Industrial Relations Officer, provided by the Workplace Relations Commission works **with** both parties to facilitate the search for a mutually acceptable solution to end the conflict. | Unit 1 |
| *Consideration* | This contract element is whatever **benefit** passes between the parties to a contract e.g. consumer receives the goods, and the retailer receives the monetary reward. It must be real, transferable, but need not be adequate. | Unit 1 |
| *Consumer* | A person who uses goods for private purposes to gain personal satisfaction and does not purchase goods for the purpose of re-sale. A consumer aims to satisfy needs and wants within a financial constraint called a budget. | Unit 1 |
| *Controlling*  **Stock**  **Credit**  **Quality** | Is the comparison of the results with the original plans and measuring performance. The firm must take corrective action to deal with deviations, which are affecting objectives.  The firm must:   * Set standards. * Compare actual results with plans. * Correct deviations * Learn from mistakes | Unit 3 |
| *Co-operative relationship*  **Win win situation** | This exists where joint action or effort is required to enable people to work and operate together so that there will be mutual benefit e.g. if the entrepreneur has a well-researched idea backed up by a business plan and the investor is impressed and supplies finance for the project then the relationship is co-operative. | Unit 1 |
| *Co-operatives*  **7 members minimum** | Are unique, democratic, ownership options. Members are workers, suppliers, and customers. There is usually a common interest. They were introduced to Ireland for farm produce | Unit 6 |
| *Co-ordination* | Is the linking together of all the various departments of the organisation to achieve a shared objective. It avoids duplication and prevents conflict in the organisation. It is part of the leadership process. | Unit 3 |
| *Council of Ministers* | Is **the main decision-making body** of the EU It consists of one government minister from each country Each council represents a different topic e. g Council of Agricultural Ministers | Unit 7 |
| Credit Control | This ensures that the firm deals with the right **debtors** (they owe us) and minimise bad debts.  It set levels of credit e.g. €1,000.  It set time limits e.g. 60 days.  Effective credit control improves cash flow. | Unit 3 |
| *Desk research* ***(Secondary****)* | Is a type of market research whereby the information is already gathered and available and this makes it a low-cost method. There are both internal and external sources. | Unit 5 |
| *Electronic Data Interchange (EDI* | Is the use of structured documents sent from one computer to another via the telephone system.  Businesses need to have compatible systems and it may prove to be expensive for small businesses.  It has revolutionised stock control and improved speed and efficiency and has reduced the paper chain.  It reduces the costs of unnecessary overstocking.  It is used to transmit money electronically | Unit 3 |
| *Empowerment* | This is the transfer of real responsibility by the manager of the firm. It places decision-making, control and responsibility in the hands of employees in the organisation. It is an advanced form of delegation. | Unit 4 |
| *Enterprise* | One of the four factors of production and it involves taking the human initiative and using a moderate degree of risk to combine the factors of production into a business unit. The entrepreneur spots a gap in the market and this is called a niche market. | Unit 2 |
| *Equity* | Is the owner’s stake in a firm. It consists of **Ordinary shares and Reserves.** | Unit 5 |
| *Ethical Business Practice* | Refers to a set of moral principles that cause a person or firm to act in a certain way. An ethic involves a valued judgement on what is right and what is wrong. | Unit 6 |
| *EU directive* | Is part of the decision-making process of the European Union. It suggests that a law should be changed but leaves it to the member state to implement it. e g. The Irish government introduced the plastic bag tax in response to an EU directive on waste reduction. | Unit 7 |
| *EU policy* | Is an agreed means of achieving agreed objectives e. g. The Social policy improves the lives of individuals. | Unit 7 |
| *European Commission* | Is made up of 27 Commissioners one from each member state. It initiates legislation for the EU. It also ensures that legislation is applied by all member states. | Unit 7 |
| *European Parliament* | Is an elected body of 705 members. It has the power to amend certain laws. It supervises EU community activities and sets up committees to investigate problems in the EU | Unit 7 |
| *European Union* | Is a group of 27 member states with close economic and political ties. It is a trading bloc and has common policies to achieve the members’ aims. | Unit 7 |
| *Exchange rate* | Is the price of one currency in terms of another e.g. April 2021 exchange is €1 = 87p sterling. | Unit 6 |
| *Exporting* | Is the process of sending goods and services abroad. The Irish economy is so small that Irish firms must seek markets overseas. | Unit 5 |
| *Feasibility study* | Allows the firm to look at the impact of the product on the area of costs revenues and profits. The demand for sales is forecast and contribution and breakeven point is established. It looks at the environmental effects.  **It is an investigative report into viability.** | Unit 5 |
| *Global marketing*  ***Know standardised and adapted*** | Refers to all the activities in identifying and anticipating the needs and wants of consumers in a single world-wide marketplace. It includes global product, global price, global promotion, and global place e.g. Coca cola. | Unit 7 |
| *Goals* | These are an entrepreneur’s objectives i.e. what the firm sets out to do. In most cases the entrepreneur wishes to maximise profits. | Unit 2 |
| *Grants and subsidies* | A grant is a non- repayable source of finance usually given by the government to encourage enterprise and initiative e.g. feasibility studies and employment grants. A subsidy is a **payment to the producer** to reduce the cost of production which boosts employment and exports. | Unit 6 |
| *Gross margin* | This is gross profit measured as a percentage of sales. The formula is: Gross Profit X 100Sales It measures the profit from buying and selling. It varies from industry to industry. | Unit 4 |
| *Gross pay* | This is an employee’s pay before statutory deductions e.g. PAYE and PRSI and voluntary deductions e.g. VHI and Christmas club. | Unit 4 |
| *Gross profit* | This is a firm’s profit made from buying and selling without taking expenses into account. It is calculated by using the following formula:  **Sales – Cost of Sales** | Unit 4 |
| *Human relations* | This involves being good with people, understanding their needs and behaviours and being able to relate to the people in and around the business. People can do courses in communications and psychology to improve this area. | Unit 2 |
| *Imports*  ***Know both visible and invisible*** | Are goods and services that are produced in foreign countries but are brought into Ireland to cater for the needs and wants of Irish consumers in the domestic economy e.g. French wine. | Unit 7 |
| *Indemnity* | This principle states that there will be no profit from insurance. The insurer attempts to put the insured back in the same position as they were before the accident occurred. Example - if a second-hand car is stolen and destroyed the owner does not get a brand new one. | Unit 4 |
| *Indigenous firms*  ***Native firms*** | Are set up in Ireland by Irish people. Enterprise Ireland is the State Sponsored Body responsible for these firms. Employment grants are made available to promote the spirit of enterprise. These firms are not foreign multinationals. They are **native wholly owned Irish firms.** | Unit 6 |
| *Industrial Policy* | Is a means of promoting business and employment in the economy. It is prepared in consultation with social partners e.g. National Development plan. | Unit 6 |
| *Industrial Relations* | This term is used to describe the relationship between the employers and employees in a workplace and refers to the history of disputes between them. We associate good industrial relations with high morale and productivity and poor industrial relations with bitter disputes and strikes. | Unit 1 |
| *Inflation*  ***Know the Consumer Price Index*** | This is an economic variable. It is a sustained rise in the level of prices based on a basket of goods based on the average family. **It was 0% in March 2021.**  It affects employees purchasing power and a firm’s competitiveness | Unit 6 |
| *Innovation* | A person looks for something original, which will not be in direct competition with other firms. The person wishes to create a barrier of uniqueness around its own product. | Unit 2 |
| *Insurable interest* | The household or business must have a direct financial interest in the exposure unit. They must benefit by its existence and suffer by its loss e.g. you may insure your home but not the house across the road. | Unit 4 |
| *Interest rates* | Are the cost of borrowing. It depends on the demand and supply of money. In the Eurozone **0%** they are set for all member states. It is measured using a **percentage**. | Unit 6 |
| *International trade* | Refers to all the business activities of countries as the exchange goods and services. Ireland is a small open economy and international trade is hugely significant for the development of our economy. | Unit 7 |
| *Internet* | Is a vast storehouse of information about a huge array of topics, which includes words pictures diagrams etc at locations called web sites. It is a network of networks. The worldwide web (www) is a subset of the internet and is a huge information source. | Unit 3 |
| *Intrapreneurship*  ***Person inside the business and not the owner*** | Means that a person acts like an entrepreneur **within** the confines of somebody else’s business. The intrapreneur comes up with **new ideas new products** and new services or helps to improve existing goods and services. The intrapreneur does not risk their own money but risks their reputation and maybe their job. These people show initiative, spot gaps etc. but remain in the relative security of somebody else’s business. | Unit 2 |
| *Investor* | This person supplies the finance for the project after examining the business plan. This person expects an adequate return e.g. in a company the shareholder (investor) expects to receive a return called a dividend, which is a portion of the profits. | Unit 1 |
| *Job description* | This describes the duties and responsibilities associated with an advertised job. It includes title, place of work, conditions of employment and details of reward. | Unit 4 |
| *Job production* | Is a type of production whereby one unique specific expensive product is made. It uses highly skilled labour. No goods are kept in stock e.g. Designer Wedding dress | Unit 5 |
| *Leadership*  ***Know the Styles*** | Is the ability to influence others and to direct them towards achieving goals. It allows a manager to have a positive impact on how others behave. The authority of the leader must be recognised by the group. The group must have a shared common objective. | Unit 3 |
| *Limited liability* | Is a form of legal protection that benefits the shareholders in a company. It means that in the event of bankruptcy a shareholder can only lose a maximum of what they invested i.e. they lose the value of their shares but not their private assets. | Unit 5 |
| *Market research*  ***Primary***  ***Secondary*** | Is the gathering, recording, and analysing of all the information involved in the transfer of the goods from the producer to the consumer. It reduces the risk of business failure | Unit 5 |
| *Marketing mix* | Is the use of **product, price, promotion, and place** by a firm as a means of achieving its targets. | Unit 5 |
| *Mass production* | Is a continuous production option. It is used to produce cheap goods in large quantities. Goods are kept in stock e.g. biros. | Unit 5 |
| *Memorandum of Association*  ***Used by Designated Activity Companies*** | This document governs a company’s relationship.  with the general public. It contains the name,  objectives share capital details and details of directors. | Unit 6 |
| *Minutes* | A brief written record of what was discussed at the previous meetings. They are read out at the next meeting and voted upon by those present | Unit 3 |
| *Motivation* | Is recognition of the factors, which cause people to put real energy and drive into their work. Reward is essential but does not necessarily mean monetary payment. It is a management skill influenced by **Maslow’s hierarchy of needs and McGregor’s Theory X and Theory Y.** | Unit 3 |
| *Multiples* | These are chains of retail outlets which rent or buy space at prime retail locations throughout the country e.g. Eason’s. They buy centrally and in bulk and benefit from cost savings in this way. | Unit 5 |
| *Negotiation* | Both parties sit down together and **talk,** and each side puts forward their side of the argument. Successful negotiation means that a **compromise** can be reached but if talks break down (see Arbitration, Conciliation) | Unit 1 |
| *Net margin* | This measures net profit as a percentage of sales. The formula is: Net Profit X 100 Sales  This measures **efficiency** and is an accurate measure of **profitability** as expenses have been deducted in order to calculate net profit e.g. wages, rent, advertising etc.  Need to know that  **GROSS PROFIT – EXPENSES = NET PROFIT** | Unit 4 |
| *Net pay* | This is the amount that the employee receives. It could be paid in cash or by cheque or by Pay path. It is the amount after all deductions from gross pay have been made. | Unit 4 |
| *Networking* | Is the use of all available business contacts to further one’s business. A business gains more by sharing ideas and information than it loses by not keeping them secret. It recognises that working with other people is a far more effective means of survival and expansion. | Unit 2 |
| *Organisation Structure* | This refers to the arranging of the firm’s resources in a way that allows it to successfully achieve its objectives. Modern structures are flatter, and the layers have been removed e.g. matrix structure. | Unit 3 |
| *Own brands* | e.g. **Tesco’s finest.** These are a “private” range of brands produced for large-scale retailers in “private” packaging e.g. Sainsbury’s Irish whiskey is produced by the Cooley distillery. Cheaper packaging is used. | Unit 5 |
| P21 End of year statement. | This is also known as the **Balancing statement.** It is used when claiming a tax rebate (refund). It shows what the employee PAID versus what the employee SHOULD have paid. This may show an underpayment or an overpayment. | Unit 4 |
| *Performance appraisal* | This is a systematic approach towards measuring an employee’s progress, contribution, and effectiveness in the workplace over a given time period. It evaluates present performance and measures an employee’s future potential. It can be used when choosing the most suitable candidate for promotion. | Unit 4 |
| *Personal Selling* | Usually applies to high quality expensive items e.g. Industrial machines. A face-to-face meeting gives the salesperson the chance to present a case persuade the buyer and clinch a deal. A strong presentation highlights the benefits of the product. | Unit 5 |
| *Planning*  *Know the types.* | Is setting goals for the organisation and choosing the best course of action to achieve them. It maps out a successful route to achieve our targets e.g. Virgin Medias strategic (long term) plan is to gain more viewers and the Guinness plan is to regain the 18-30-year-old market. | Unit 3 |
| *Privatisation* | Is the transfer of ownership of **State bodies** from state hands into **private hands** e.g. the partial sale of Aer Lingus It reduces the states involvement in commerce | Unit 6 |
| *Proactive people* | Enterprising people who adopt a go-ahead attitude are said to be proactive. These people are not afraid to take risks. | Unit 2 |
| *Producer* | This person/party combines machinery and labour to transform raw materials into finished products for consumers.  They provide raw materials for other producers and finished goods for consumers. E.g. Mc Cain frozen foods | Unit 1 |
| *Product life cycle*  ***Always label diagram fully*** | Of a product refers to the level of unit sales over a given time. Products vary e.g. Guinness stout has a prolonged life cycle whereas in Japan the Walkman has a three-month life cycle. | Unit 5 |
| *Proposal**form* | This is the **application form** in insurance and contains all relevant questions. The applicant must declare all material facts on this form e.g. if a house has a thatched roof. **It is used to calculate the premium**. | Unit 4 |
| *Prototype development* | Is a stage of new product development whereby the original of the species is put together in a form suitable for testing. The prototype must be suitable for full-scale production, so testing is carried out. This is **a mock-up of the product.** | Unit 5 |
| *Public limited company* | Is quoted on the Stock Exchange e.g. Kerry Group. It has a minimum of 7 shareholders and no maximum. Its shares are transferable. It must meet strict Stock Exchange standards on profit levels | Unit 6 |
| *Public relations* | Concerns the firms’ relationship with the general public and the communication of its policies, ideals, products, and services. Publicity is the unpaid mention of the firm in the media. It generates goodwill for the firm. It addresses any complaints made against the firm; it improves the firm’s **image** | Unit 5 |
| Quality control | This eliminates rejects as early as possible in the production process.  It reduces waste.  It satisfies more customers.  It eliminates the causes of defects.  The firm may acquire a “**quality mark**” i.e. an award for consistent excellence. | Unit 3 |
| *Questionnaire* | Is a document used in primary market research to gather information. It asks a series of appropriate questions. | Unit 5 |
| *Reactive people* | People who prefer to wait and see are said to be reactive. These people are risk avoiders. | Unit 2 |
| *Recruitment* | This is the process in human resources management whereby the correct people are attracted to the firm. The firm wishes to attract flexible people with the necessary skills and personalities to fill the vacancy in a flexible firm. | Unit 4 |
| *Retailer* | Is a type of business that specialises in a given trade and is the direct link to the customer. They also provide worthwhile feedback to the producer e.g. Smyths toy stores. | Unit 5 |
| *Return on investment (ROI)* | **This is also known as Return on Capital Employed** (ROCE). It measures the overall profitability and **efficiency** of the firm. The formula is: \_\_\_\_\_\_\_\_\_\_\_\_*Net profit X 100\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_* *Issued ordinary share capital + Reserves + Long-term debt.*  The answer, which is a percentage, should be at least 2%. This is the return that the owner would receive by placing the money in **a risk-free investment** e.g. Bank Deposit a/c. | Unit 4 |
| *Risk Management* | This means gathering as much information as possible about uncertain situations and minimising these risks and eliminating them where possible e.g. installing smoke alarms, carrying out market research. Once a **risk has been identified** it can then be managed correctly. It is **a planned approach.** | Unit 2 |
| *Sales Promotion*  ***Gimmicks*** | Is the use of attention seeking methods to attract customers to the product or service. It is used in conjunction with normal advertising and the product usually receives short-term attention. The bonus or incentive offered is usually related to the product. | Unit 5 |
| *Selection* | This area of human resources management comes immediately after recruitment. It **chooses the most suitable applicant from a pool of candidates** attracted at the recruitment stage. Interview is the most common technique used in Ireland | Unit 4 |
| *Service Industry* | In this sector nothing is produced but essential back up is provided to the other sectors such as accounting, legal advice, information technology, distribution, and financial services. | Unit 1 |
| *Single market* | Is a market without barriers and with harmonised rules and policies e.g. Single European Market. | Unit 7 |
| *Sole trader* | Is a person who owns and controls his/her own business e.g. farmers, retailers, hairdressers, plumbers, carpenters. **They do not have limited liability**. | Unit 6 |
| *Span of Control* | This is the ideal number of subordinates under the instruction of a superior as part of the delegation process.  The ideal number is 7 subordinates per superior, **but it depends on the abilities of the employees, the nature of the employment and the abilities of the superior.** | Unit 3 |
| *Spreadsheet* | A software application package, which allows the preparation of budgets, accounts, pay slips and breakeven analysis e.g. Excel.   * It improves speed, accuracy and efficiency of work and improves decision making in the firm. * It eliminates the boredom of doing repetitive tasks. * It allows sensitivity analysis, which allows us to change any figure at the push of a button. * It improves the storage of accounts and improves their presentation. | Unit 4 |
| *State enterprise* | Is the area of a state’s involvement in commerce the government has a social objective to provide essential services e.g. free travel to people over 66 on Bus Eireann. Profit is not the main objective. | Unit 6 |
| *Stock Control* | This is a system to find the **optimum** level of stock.  This involves keeping an emergency level called a **buffer stock.**  The firm may use **EDI** (Electronic data interchange), which improves efficiency.  The firm might introduce a “**Just in time”** system, whereby stocks arrive as closely as possible to the time of use. This releases cash for the daily running of the business. | Unit 3 |
| *SWOT Analysis* | It is used at the pre-planning stage and breaks the business down into four categories. It brings a structure to the planning process and improves the organising process. It looks at strengths, weaknesses, (INTERNAL) opportunities and threats. (EXTERNAL) | Unit 2 |
| *Takeover* | Is when one company takes a **majority stake** in another and **assumes complete control** e.g. IAG and Aer Lingus. | Unit 5 |
| *Teamwork* | This is seen as an advanced form of delegative participation whereby workers make key decisions. Employers are the main instigators of teamwork. It flattens the organization structure, and each team member has input into decision-making. | Unit 4 |
| *Terms of reference* | This refers to the purpose for which a report has been commissioned by the person who wishes to avail of the findings of such a report e.g. The Hanley report related specifically to medical staffing in Irish hospitals. The writer of the report should keep within the parameters of these terms to ensure that the report is accurate. | Unit 3 |
| *Time Management* | This means carrying out tasks as efficiently as possible in the time available. It involves quantifying of tasks, delegation of tasks, strict monitoring, and great discipline from everyone. | Unit 2 |
| *Total Quality Management* | This is a state of mind, a way of doing business, which means that an organization continues to improve. It is a set of rules and practices for enhancing customer satisfaction by providing higher quality products and services in a rapidly changing world. It looks for **zero defects** | Unit 4 |
| *Trading Bloc* | Is a group of countries with free trade between themselves and a common external tariff on countries outside the group e.g. the European Union. | Unit 7 |
| *Transnational company* | Is a company owned by its parent and with branches in at least 6 countries around the world e.g. Dell. They move worldwide in search of cheap labour and cheap raw materials. There are 1550 in Ireland | Unit 7 |
| *Utmost good faith* | The household or business must disclose all material facts. A material fact is a piece of information, which may cause the insurance company to accept or reject the application or to vary the premium charged e.g.   * Thatched roof on house * Drunk driving conviction * Heart problems | Unit 4 |
| *Videoconferencing* | Is a system, which allows a live link up via satellite, which means that meetings can be held simultaneously but at different geographical locations. It is a virtual face- to- face meeting.  It eliminates travel costs and time.  Meetings can be held at short notice.  Information can be exchanged.  Proceedings are recorded | Unit 3 |
| *Wholesaler* | Is a firm that buys from various producers in bulk and sells in smaller quantities to the retailer. The wholesaler is often referred to as the middleman and provides worthwhile feedback for manufacturers. | Unit 5 |
| *Working* ***capital*** | This is the short-term funding for the day to day running of the organization. It is  **Current Assets – Current Liabilities.**  All firms wish to have a positive cash flow. | Unit 4 |
| *Working capital management* | Is the managing of a firm’s cash on a daily basis. It means that the firm can meet all of its short -term debts when they fall due. It also manages stock, debtors, and creditors. | Unit 5 |
| *Working Capital Ratio (Current Ratio)* | This ratio is used to measure a firm’s liquidity. The formula is: Current Assets **Current Liabilities**  Ideally it should **be 2:1** which means that for every euro that falls due in the short term the firm should have €2 to meet it. | Unit 4 |

**Short answer questions**

This section is worth 13% of the exam and it is important that you know all the terms from the exam questions. It is better to write as much information as possible as one­ sentence definitions are far from sufficient. There is a good mix of Questions varying from definitions to simple computations to acronyms to chart drawing.

**It is wise to split all definitions into 2 separate points.**

The more difficult past short answer questions with model answers

2019

Explain the term **national minimum wage.**

The **legal** minimum hourly payment to an employee set by

government. €10.20 per hour currently.

Describe **one** possible economic impact on **Irish business** of the increase in the national minimum wage.

**Increased costs may result in redundancies.** The increased hourly rate of hiring employees may force the business to reduce staff numbers.

2018

Outline two implications for a business of changing from a functional to a matrix organisation structure.

**Training**

Training costs involved for manager and staff which takes time to complete Staff development may result as employees have greater knowledge and learn how the whole business operates

**Duplication of duties may exist across several teams.**

Several teams may have a marketing manager, production manager. It is essential that each of these managers communicate to avoid conflicting approaches to projects.

Explain the term working capital.

The level of cash available for **the day by day running of a business**. It is used to pay current liabilities such as creditors, bank overdraft, accruals. **Working Capital is calculated by subtracting current liabilities from current assets.**

Outline two problems caused by insufficient working capital for a start-up business.

**It directly affects the liquidity position of the business**. There will be a cash flow problem. This may make it more difficult to acquire loans.

**The objectives of the business cannot be achieved**. Short term needs such as the purchase of stock and payment of wages cannot take place.

Outline your understanding of the terms Privatisation and Deregulation.

Privatisation occurs when a **state-owned business** is sold to **private investors**.

Deregulation is the **removal of legal barriers** to allow firms to **enter an industry** or a market/to trade in a market.

2017

Outline two factors that could reduce bad debts in a business.

**Assess Credit History**

The credit worthiness of potential customers is checked in advance, e.g. asking for bank references, trade references, credit bureau, Stubbs Gazette.

**Credit Limits**

Set appropriate credit limits and credit periods: Draw up clear terms and conditions controlling the amount of credit and ensuring that payments are made on time.

**Using the figures below, calculate the Debt/Equity ratio (Gearing) of Lalco Ltd. for 2015. (Show your formula and workings.)**

Reserves €130,000

Long-term Loan €700,000

Ordinary Share Capital €220,000

(b) Outline whether Lalco Ltd. is highly geared or lowly geared and the possible effect this result has on the business. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

###### **Applied Business Questions**

## Compulsory Section

**80 marks (26%)**

***In Leaving Cert 2021 students will be examined on Units 3,4 and 5***

In Leaving Cert 2021 students will be examined on Units 3, 4 and 5.

: In line with previous trends it is advisable to concentrate on particular Higher-Level areas.

The applied business question needs practice.

A few basic guidelines should be followed.

|  |
| --- |
| There are three questions based on a given passage.  You must state your point, expand the point, and relate it to the text.  **ALWAYS REFER TO THE PASSAGE** |

* Expect to be asked to “evaluate” management skills **or** management activities from the passage. Define the skill or activity, give a brief explanation of the skill or activity, analyse it at present in the text, offer methods of improvement and relate to the text.

**NB.** Students should read the three questions and note the allocation of marks before reading the text.

20 marks = 8 minutes

30 marks = 12 minutes

40 marks = 16 minutes

Allow 4 minutes to read the passage.

Answers should always be planned, and relevant course material should be jotted down in a roughwork section e.g. listing human resources functions or the 6 ratios.

Unit 3 PAST EXAM TOPICS

**UNIT 3**

Evaluate the **management activities** involved in the operation of Oat field Lodge Wedding Venue. (30) 2019

Ryan Cullen has developed effective management skills. **Would you agree** with this statement? Outline reasons for your answer, with reference to the text of the ABQ. (30 marks) 2016

(i) Define the management activity of **planning.**

(ii) Explain the elements of a **SWOT analysis** and conduct the SWOT prepared by Christine Landers. (30 marks) 2015

Evaluate the effectiveness of the systems of **management control** in operation at Atlantic Surf. (30 marks) 2014

**Evaluate** how Mary can use her **management skills** to ensure the continued success of her hotel. Refer to the above text in your answer. (30 marks) 2011

**UNIT 4**

Discuss the impact that **investment in technology** has had on Castle west Hotel and Conference Centre. Refer to the above text in your answer. (30 marks)

**Evaluate** the effectiveness of the a**pproach** taken by Martin to help Harte Shoes Ltd **adapt to change**. (30 marks)

Identify and describe the most appropriate **sources of finance** to meet the needs of

(i) RIM Ltd

(ii) Individual stallholders. (20 marks)

**UNIT 5**

Outline the stages involved in the **product development process** of ‘Knights' Domain’ for Galaxy Games Ltd. (30 marks)

**Evaluate the promotional techniques** undertaken by RIM Ltd. (30 marks)

(i) Discuss one possible **opportunity** and one possible **threat** for Digibrand of **merging** with Media Mania. (ii) Evaluate one other method which Ryan could consider to grow his business. (20 marks)

Despite the exhaustive list, the previous exam questions have tended to concentrate on specific Higher-Level areas e.g.

1. Management Skills
2. Management activities
3. Central role of Human Resources management
4. Developing the employer-employee relationship
5. Strategies for change
6. Business plan
7. Finance for business startup.

**NB:**

* There are three questions based on a given passage.
* Students should read the three questions and note the allocation of marks before reading the text (a 40-mark question should be answered within 18 minutes).
* You must state your point, expand the point, and relate it to the text.
* DO NOT MIX UP ENTREPRISE TERMS WITH MANAGEMENT SKILLS OR ACTIVITIES
* THE MATERIAL IN THE PASSAGE DICTATES WHICH ENTREPRENEURIAL WORDS ARE NEEDED.

**ALWAYS REFER TO THE PASSAGE**

Management table Unit 3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Leadership | Communication | Motivation | Planning | Organising | Control |
| **Definition** | **Definition** | **Definition** | **Definition** | **Definition** | **Definition** |
| Autocratic | Channels | Maslow | Types | Line | Stock |
| Democratic | Types | Mc Gregor | Benefits | Matrix | Credit |
| Laissez-Faire | Principles |  |  | Delegation | Quality |
|  |  |  |  | Span of Control |  |

**METHOD WHEN ANSWERING ABQ**

1. Read the Questions before reading the passage.
2. Jot down the main headings at the back of your answer book
3. Read the passage at least twice.
4. The links are usually very obvious.
5. Name Explain and Link
6. You can use the same link in separate questions A and B and C if relevant.
7. If Discuss is the outcome verb write mini paragraphs

**Sample Applied Business Question for 2021**

**The Root of all…. flavour**

The Mc Carthy family have over 100 years’ experience between them in the farming and food industry. The closely knit family have trialled innovative products successfully for generations.

They believe in having new products to roll out onto the market every two years. They view agriculture and horticulture as important sciences and believe that food can always be improved.

The most recent product is called “Spinach bites” and has been 18 months in the pipeline. The family initially “Brainstormed” and came up with a range of options for healthy sides with dips.

A SWOT analysis eliminated the unsuitable ideas and they decided on a spinach-based side dish, ideal with healthy dips. A unique selling point of a crisp spinach dip coated in carrot and breadcrumbs was decided upon. A report into viability looked at costs, revenues, and potential breakeven point. A mock-up of the product was produced, and it was suitable for testing. The product was trialled at several farmers markets in the locality and the feedback was all very positive.

Mary Mc Carthy has led the firm from the beginning and her casual style has endeared her to the workforce. She shares the tasks but maintains responsibility. A staff meeting is held every Friday and the weekly operational issues are discussed and outstanding issues are highlighted. Mary believes that sharing information within reason is essential for the success of any business. She also has introduced a living wage of €14 per hour with time and a half for overtime. Mary realises the importance of staff basic needs in an ever more expensive time. Staff morale is usually high, and many employees have several years’ service.

John Mc Carthy deals with the financial side of the business. He realises the importance of paying wages on time and of keeping suppliers and utility companies up to date. The fleet of delivery vans are all on lease agreements to avoid large outgoings. The Mc Carthy family have reinvested the annual profits for several years and want to minimise their exposure to outside investors. John attempts to match the source of finance with the use of the finance and while sustainable profits are important, a strong liquidity position is a priority always.

(A) Outline the stages of New Product Development used by the Mc Carthy family business.

Refer to the above passage in your answer. (30)

(B) Evaluate the effectiveness of management skills by the Mc Carthy family business.

Refer to the above passage in your answer. (30)

(C) Analyse the use of Sources of finance by the business, (refer to short-, medium- and long-term sources)

Refer to the above passage in your answer. (20)

**Suggested Solutions**

I expect the ABQ to be very important this year and it might be safer to give more comprehensive answers but acknowledging the importance of accuracy of information and the appropriate course knowledge at the right time in an answer.

(**A) Outline the stages of New Product Development used by the Mc Carthy family business.**

**Refer to the above passage in your answer. 5 x (2+2+2) Name / Knowledge/Link (30)**

1) **Idea generation**

This is the search for all possible products that could be offered to the consumer. Several ideas gathered should eventually lead to a few good ones. **Brainstorming** is often used. This means forming a think tank of employees from a cross section of the firm. The session, which is often held “off-site”, must produce definite ideas before it is concluded.

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

***The most recent product is called “Spinach bites” and has been 18 months in the pipeline. The family initially “Brainstormed” and came up with a range of options for healthy sides with dips.***

2) **Screening ideas**

At this stage they eliminated unsuitable ideas and concentrated on those with the greatest potential. Screening eliminates poor ideas as early as possible and concentrates on turning good ones into profitable ones. A firm may use SWOT analysis at this stage.

***A SWOT analysis eliminated the unsuitable ideas and they decided on a spinach-based side dish, ideal with healthy dips.***

3) **Concept development**

This means that a product must be put together in a meaningful manner for consumers. It must satisfy consumer needs and wants and be in some way different.

**A unique selling point is** highlighted to distinguish the product from the rest.

***A unique selling point of a crisp spinach dip coated in carrot and breadcrumbs was decided upon.***

4) **Feasibility study**

The firm looked at the impact of the product on the area of costs, revenues, and profits. The demand for sales was forecasted and contribution and breakeven point were established. Can the product be made successfully?

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

***A report into viability looked at costs, revenues, and potential breakeven point.***

**5) Prototype development**

is the creation of the **first working model/mock-up/sample** of a new product/producing an update/improvement of an existing product?

This cycle is the only method for **refining the original design to create a fully functioning product.**

At this stage, the original of the species is put together in a form suitable for testing.

It is important that the idea and design can be “married “into a product suitable for the consumer the prototype must be **suitable for full-scale production**, so testing is carried out. It is a lengthy and expensive phase.

It is important to develop a prototype for test marketing.

***A mock-up of the product was produced, and it was suitable for testing.***

(**B) Evaluate the effectiveness of management skills by the Mc Carthy family business.**

**Refer to the above passage in your answer. 3 x (2+3+2+2) EVAL 3**

**Name/ Knowledge/Knowledge/Link**

**Leadership** is the ability to influence others and to direct them towards achieving goals. It allows a manager to have a positive impact on how others behave. The authority of the leader must be recognised by the group. The group must have a shared common objective.

Leadership includes Directing and Co-ordination.

Mary uses a **democratic style** whereby she trusts her staff and shares tasks and responsibility This reduces conflict and improves efficiency.

Mary is a **delegator** which improves efficiency in the firm.

***Mary Mc Carthy has led the firm from the beginning and her casual style has endeared her to the workforce. She shares the tasks but maintains responsibility.***

**Communication** is the exchange of information between people. There is a sender and a receiver involved and it is important that the message sent is fully understood. The most common types are verbal, written, visual and electronic. Managers spend about 75% of their time communicating and poor communications is a major cause of conflict.

Mary understands the principles of communication and places a strong emphasis on staff feedback.

***A staff meeting is held every Friday and the weekly operational issues are discussed and outstanding issues are highlighted. Mary believes that sharing information within reason is essential for the success of any business.***

##### Motivation

is recognition of the factors, which cause people to put real energy and drive into their work. Reward is essential but does not necessarily mean monetary payment. It is essential if a business is to achieve its objectives.

Mary understands Maslow’s hierarchy of needs and the progressive nature of motivation starting at the basic needs of the employee.

Once a need is satisfied it is no longer dominant.

Maslow’s theory helps owners and managers to understand the staffs’ human needs and the approaches needed to satisfy them.

***She also has introduced a living wage of €14 per hour with time and a half for overtime. Mary realises the importance of staff basic needs in an ever more expensive time.***

***Evaluation 3 Marks***

In my opinion the management skills are used successfully in the above passage because of evidence that

* Mary is liked by the workforce.
* Staff are given an opportunity to bring up any issues on a weekly basis.
* Staff morale is high.

This shows evidence of positive and effective Leadership, Communication and Motivation.

**C) Analyse the use of Sources of finance by the business, (refer to short-, medium- and long-term sources) Refer to the above passage in your answer. (20)**

**2/3/2 Name / Knowledge/ Link x 2**

**2/3/1 x1**

**Short term finance covers a period of less than one year.**

**Bank Overdraft**

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

***He realises the importance of paying wages on time and of keeping suppliers and utility companies up to date.***

Medium term finance covers the period of 1 to 5 years.

### Leasing:

As the business wants to minimise large financial outgoings it would use leasing.

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

***The fleet of delivery vans are all on lease agreements to avoid large outgoings***.

### Long term finance covers the period of greater than 5 years.

**Retained Earnings**

This source of finance is also known as reserves or ploughed back profits and involves sacrificing the prospect of taking a dividend out of present profits and reinvesting the profits in the business.

It is a cheap source of finance and is preferable to debt which involves expensive interest and collateral.

***The Mc Carthy family have reinvested the annual profits for several years and want to minimise their exposure to outside investors***.

***These are suggestions and I would say that it is ok to add to them but do not try to shorten.***

APPLIED BUSINESS QUESTION LCHL 2021

|  |
| --- |
| Kate’s Chocolates In 1998 Kate spotted a gap in the market for quality handmade chocolates. She had worked for several years in a multinational in the Research and Development section.  Kates team had specialized in sweets and confectionery so the move to self-employed chocolate entrepreneur was something of a natural progression. She worked long hours initially to get the business off the ground and was usually the last to leave the factory each night.  Kate is well liked and tries to bring her staff along with her rather than forcing them to follow. This approach works well, and the staff work hard in return. Kate wishes to grow the business year on year and the entire workforce put in the extra effort to reach pre-determined targets. The workforce are divided into “product teams” and this allows the objectives to be achieved with minimum fuss  Recently, her financial advisor John pointed out that while the business is profitable, it is going through a temporary cash flow problem. He blames this on Kates tendency to hold large amounts of ingredients in the store area and on her inability to collect outstanding monies from debtors on time. The latest set of financial results show a current ratio of 1.3: 1 and an acid test ratio of .7: 1. John has suggested that she tackles the liquidity problem immediately and Kate is determined to overcome the problem.  Kate is also looking to the future and is developing a new type of white chocolate. She is contemplating carrying out an extensive analysis of the Irish market but is off put by the costs involved. Nevertheless she realizes the importance of producing the right product to satisfy the discerning chocolate customer’s needs and wants. This research would also provide valuable information on the correct price “plateau” and enable the new product to be competitive. She has also heard that selling products directly to the consumer has certain advantages. Kate knows that the confectionery Industry is very competitive but is not sure of the specifics. The new product will also need to be promoted and Kate is unsure of the exact components of the promotional mix. Overall, she is leaning towards the market research idea and the notion that it would be money well spent. |

1. Outline the management characteristics that are evident in the above passage.

(20 marks)

1. Analyse the liquidity situation in the above passage, referring to the current and acid test ratios in your answer. What solutions would you propose to help to ease the liquidity problems. Refer to the above text in your answer.

(30 marks)

1. Explain the importance of market research for Kates’s chocolates.

Refer to the above text in your answer.

(30 marks)

**Solution to Kate’s Chocolates**

# (A) Characteristics of good managers

## Self-Motivated

Kate is driven by her own ambitions and an energetic approach sets good example to subordinates.

*She worked long hours initially to get the business off the ground and was usually the last to leave the factory each night***.**

## Achievers

Kate has shown a willingness to succeed and has been able to set realistic targets and has had the desire to see them through.

*Kate wishes to grow the business year on year and the entire workforce put in the extra effort to reach pre-determined targets***.**

### Charisma

Kate has the ability to draw people towards her and subordinates are attracted to her style and work harder as a result.

*Kate is well liked and tries to bring her staff along with her rather than forcing them to follow. This approach works well, and the staff work hard in return.*

### *Delegation*

A manager should not try to “go it alone” and should share out the tasks where possible among the subordinates. Mistakes are tolerated as part of the normal learning process. Kate has learned to share the workload.

*The workforce is divided into “product teams” and this allows the objectives to be achieved with minimum fuss.*

## *Bias for Action*

Good managers are willing to try new ideas and experiments and are prepared to have a go. They behave in a proactive manner and their “actions speak louder than words”.

*John has suggested that she tackles the liquidity problem immediately and Kate is determined to overcome the problem.*

(B) LIQUIDITY

is a measure of the firm’s ability to meet short term debts as they fall due.

WORKING CAPITAL RATIO = CURRENT ASSETS

CURRENT LIABILITIES

Ideally this should be 2:1 which means that for every euro that falls due in the short run the business has 2 euro to meet it.

## *The latest set of financial results show a current ratio of 1.3: 1*

ACID TEST RATIO =

CURRENT ASSETS - CLOSING STOCK CURRENT LIABILITIES

Ideally this should be 1:1 which means that for every euro that falls due in the short run the business has 1 euro to meet it. It is the true test of cash flow in a business.

*An acid test ratio of 0.7: 1. John has suggested that she tackles the liquidity problem immediately and Kate is determined to overcome the problem.*

All businesses need cash to meet their daily spending requirements. It can be readily exchanged for goods and services and adequate cash reserves means that the firm is liquid i.e. able to meet short-term debts as they fall due.

Firms are more likely to close down for cash flow reasons i.e. unable to pay wages, creditors, or utility bills. A firm can make profits but must collect this revenue to ensure that it remains liquid having a healthy cash flow.

This firm has a poor stock control policy, and its cash is being spent on stocks of goods that are not needed in the immediate future.

*He blames this on Kates’s tendency to hold large amounts of ingredients in the store area*

The firm has a poor credit control policy and is unable to collect the outstanding monies owed to it. Debtors would be “leaning” on its business and this drains its cash flow.

*“and on her inability to collect outstanding monies from debtors on time.”*

It could introduce a “Just in Time” stock policy whereby stocks arrive as closely as possible to the time of use and this releases cash for other areas of the business.

It could implement a more careful credit policy. It could get credit references on its debtors to minimize slow payments and bad debts.

(C)

Market research is the gathering, recording and analysis of all information involved in the transfer of the goods from the producer to the consumer. It reduces the risk of business failure.

It is important because it collects and analyses information on:

1. Product

Information on consumer needs and wants gives the firm a better chance of satisfying them with the correct products. It will help to find a suitable package and name for the new product.

**“***Nevertheless she realizes the importance of producing the right product to satisfy the discerning chocolate customer’s needs and wants”.*

1. Price

Market research can estimate the parameters for price e.g. between 50c and 70c for chocolate bars and this ensures that her pricing systems are competitive.

**“***This research would also provide valuable information on the correct price “plateau” and enable the new product to be competitive.”*

1. Place

She can analyse information on place and choose a suitable channel of distribution for the products. Will she use wholesalers, retailers, or direct selling to the customer.

*“She has also heard that selling products directly to the consumer has certain advantages.”*

1. Promotion

She can analyse information on the impact of the promotional mix, how successful is the combination of advertising, sales promotion, public relations, and personal selling.

*“The new product will also need to be promoted and Kate is unsure of the exact components of the promotional mix.”*

1. Competition

Research will reveal the key players in the market and any business wishing for a successful future should never ignore the competition and afford them appropriate respect.

*“Kate knows that the confectionery Industry is very competitive but is not sure of the specifics.”*

**NB There will be regular updates on my website and lots of new ABQs for LCHL 2022 onwards.**

[www.leavingcertbusiness.com](http://www.leavingcertbusiness.com)

APPLIED BUSINESS QUESTION

**Types of Business controls**

**Sources of finance**

**Breakeven and costing**

**PRET-A-MANGER LTD**

Sean has just carried out a SWOT analysis on his sandwich bar business which has just reported a loss for the year 2005. The business has lost regular customers to the competition, standards have slipped, and costs have soared in the past twelve months.

An outside consultancy firm has laid most of the blame on Sean’s lack of business controls. They have highlighted the poor hygiene standards in the business and increasing levels of waste. They have commented on the high staff turnover and Sean’s reluctance to offer generous terms and conditions to the staff. The business seems to either carry too many ingredients or run out of supplies altogether and this is affecting its ability to retain customers.

The consultants have suggested a standardized costing and pricing system for each sandwich. They have estimated that Fixed costs are €100,000 annually. The Variable cost per sandwich is expected to be €2.25 and the Selling Price per unit is estimated at €3.50 in line with the competition. It further estimates that the forecasted sales for 2006 will be 140,00 units. They have also emphasized the importance of meeting the break-even point and having a Margin of Safety. It is hoped that this new costing system will help to restore the business to profitability.

The firm has experienced cash flow problems in the past and needs to tighten up its use of sources of finance. The consultants have suggested to Sean to match his sources with the business’s needs. With this in mind he wishes to manage his liquidity on a daily basis, acquire a new delivery van and to acquire a more suitable premises. It has also been suggested to Sean that he should prepare cash flow forecasts to help him with financial planning.

1. **Outline three types of business controls that you would recommend to Sean in order to improve his business. Refer to the above passage to fully support your answer. (20)**
2. **Based on the above information calculate the Break-even point and the Margin of safety for this business. If fixed costs were to increase by €20,000 in 2006 calculate the new Break-even point. (30)**
3. **(i) Explain the matching concept and its relevance for Sean’s business and recommend 3 suitable sources of finance.**

**(ii) Outline the benefits of cash flow forecasting for the above business. (30)**

(A)

#### Controlling is comparing results with original plans and measuring performance. The firm must take corrective action to deal with deviations, which affect objectives.

The firm must

* Set standards.
* Compare actual results with plans.
* Correct deviations
* Learn from mistakes.

## Example

If a sandwich firm plans to spend €10,000 on light and heat but actually spends €14,000 its cost control system should detect why there is overspending.

There are several types.

##### Stock control

* The firm should devise a system to find the optimum level of stock i.e. raw materials and finished goods.
* It should keep a buffer stock in case of emergencies.
* It might introduce a Just in time system e.g. ingredients would arrive as closely as possible to the time of usage. This releases cash for working capital purposes.

*The business seems to either carry too many ingredients or run out of supplies altogether and this is affecting its ability to retain customers.*

##### Quality control

* This eliminates rejects as early as possible in the production process e.g. if a fault is found in the flour it should not carry through to the finished loaf of bread stage.
* It reduces waste.
* It satisfies more customers as their needs and wants are satisfied by the sandwiches It eliminates the causes of defects e.g. poor sourcing of supplies.
* The firm may acquire a “Quality Mark”, which enhances the product’s status in the eyes of the customer.

*They have highlighted the poor hygiene standards in the business and increasing levels of waste.*

##### Staff Control

* This ensures that the firm has the right numbers of staff and ensures that they can provide excellent customers service always.
* The correct staff are recruited and selected, trained properly and then rewarded generously when targets are being reached.
* In a competitive catering good food and excellent food can be the “unique selling point”

They have commented on the high staff turnover and Sean’s reluctance to offer generous terms and conditions to the staff.

1. The formula for break-even point is.

|  |  |  |
| --- | --- | --- |
|  | Fixed costs |  |
|  | Selling Price per unit – variable cost per unit |  |

=

|  |
| --- |
| €100,000 |
| €3.50 – €2.25 |

=

|  |
| --- |
| €100,000 |
| €1.25 |

=

***80,000 units***

Margin of safety is the number of units by which the firm can reduce production before it makes a loss. Formula is

|  |
| --- |
| Present Output - Break-even point |

140,000 – 80,000 = ***60,000 units***.

AFTER FIXED COSTS INCREASE

|  |
| --- |
| €120,000 |
| €3.50 – €2.25 |

=

|  |
| --- |
| €120,000 |
| €1.25 |

=

New Break-even point ***96,000 units***

(C)

1. Pret-a-manger Ltd should match its source of finance with its need as it is important to keep time limits on a par.e g a short-term need is funded by a short term source of finance.

Long term

We are told that it needs a premises and a long-term source e.g. commercial mortgage over 20 years to buy the premises with a large loan and use the deeds as collateral and would be under less pressure to generate revenue as the repayment term is spread out.

Medium term

We are told that it needs a delivery van, which is a medium-term need and Hire Purchase would be suitable. The business could pay for the van in instalments (up to 5 years) and ownership does not pass until after the last instalment has been paid.

Short Term

We are told that a business has working capital needs i.e. wages and current bills and a bank overdraft could be used to pay them. As they work for the business, they will bring in enough revenue to clear off the outstanding balance.

(ii)

## A business prepares a cash flow forecast for a number of reasons.

Cash can be readily exchanged for goods and services. It is “liquid” in that it can be spent at a moment’s notice. Without cash the business has a limited ability to conduct business.

1. To predict the amount of cash flowing into and out of the firm. This will allow it to anticipate times when there may be a cash flow problem.
2. To help to predict start up cash requirements for business. It shows signs of good management and will impress a bank manager.
3. Comparing the results with projections acts as a useful means of financial control.
4. It acts as a financial guideline for the forthcoming year.

## The firm has experienced cash flow problems in the past.

**LONG QUESTIONS 60% of the exam.**

There are 8 long questions on the exam paper.

In 2021 answer THREE questions

Part ONE

Questions 1-4 Must do at **least ONE question**

Part TWO

Questions 5-8 Must do **at least ONE question**

The final question can be from **either section.**

Examwatch Know what *evaluate* and *discuss* mean.

Watch out for the following outcome verbs as they influence the marking scheme.

* **Evaluate**
  + In my opinion or judgement
  + Two Sentences explaining your opinion.
* **Discuss**
  + Explain and Explain.
  + Use mini paragraphs.
  + Do NOT USE HEADINGS

**How to read an Exam Question**

* Evaluate how the Sale of Goods and Sale of Services Act helps to protect the consumer.

There are effectively three parts to watch out for

* 1. Evaluate..........
  2. SOGSOS ACT ...........
  3. Protects the Consumer......

**Paper Layout and your Answer Book**

* Label all questions clearly.
* One part per page or pages.
* Leave gaps between mini paragraphs.
* Straight to the point.
* No long-winded intro.
* Name and explain.
* Practise writing neatly against the clock.

**See table for sectional guide to the minimum average mark’s requirement for each Higher band.**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **SAQs** | **ABQ** | **Q1** | **Q2** | **Q3** | **Q4** | **Q5** | **Q6/7/8** |
| **H1** | 36 | 72 | 54 | 54 | 54 | 54 | 54 | 54 |
| **H2** | 32 | 64 | 48 | 48 | 48 | 48 | 48 | 48 |
| **H3** | 28 | 56 | 42 | 42 | 42 | 42 | 42 | 42 |
| **H4** | 24 | 48 | 36 | 36 | 36 | 36 | 36 | 36 |
| **H5** | 20 | 40 | 30 | 30 | 30 | 30 | 30 | 30 |
| **H6** | 16 | 32 | 24 | 24 | 24 | 24 | 24 | 24 |

**Unit 1**

**Question 1** off the paper

**Possibly/Probably Question 4**

(i) Explain the term co‐operative relationship between stakeholders in a business.

(ii) Describe one example of a co‐operative relationship which could arise between each of the following pairs of stakeholders:

• Employer and Employee

• Investor and manager of a business

• Producer and consumer (20 marks

A ​***co­operative relationship​*** exists where joint action or effort is required to enable people to work and operate together. There will be mutual benefit between the parties.

This is a winner winner relationship.

Employer and Employee

The relationship is mutually beneficial when the employer offers decent terms and conditions and in return the employee is hardworking, reliable, and honest.

Investor and manager of a business

The relationship is mutually beneficial when the Investor provides funding without delay and the manager puts the funds to good use, makes a profit and pays a dividend to the Investor.

Producer and consumer

The relationship is mutually beneficial when the producer provides high quality goods at a fair price and the consumer is satisfied and goes on to become a loyal customer.

Describe the provisions of the Sale of Goods and Supply of Services Act 1980 and evaluate its effectiveness. (30)

It states that goods must be of merchantable quality​.

The consumer is entitled to goods which are of merchantable quality – they should be of reasonable standard/quality considering what they are supposed to do, their **durability and the price paid**. A €50 pen versus a €1 pen. If the good is not of merchantable quality, the consumer could seek a refund, replacement, or repair depending on the type of fault and the time frame.

It states that goods must be fit for the purpose required. ​This means that if the consumer relies on the retailer/assistant for help or expertise on choosing the correct product the advice should be correct e.g. choosing paint for the interior versus for the exterior.

The act states that goods must be as described. ​The consumer is protected as goods sold under description must be exactly as described e.g. a 100% pure silk shirt must not be partly polyester.

Goods sold by sample then goods must match the sample.

Goods sold by sample and description must correspond to the sample and description.

**​**It is the retailer and not the manufacturer who is responsible for defective goods.

This means that the retailer must sort out the consumer problem as the contract was between the consumer and the retailer and not with the manufacturer.

**Evaluation**

In my opinion or judgement this important piece of legislation offers consumers the protection of statutory rights.

This puts pressure on all retailers and means that the phrase “Caveat Emptor” is less relevant nowadays.

**Read the information supplied and answer the questions which follow.**

Nurses belonging to the Irish Nurses and Midwives Organisation (INMO) are to begin industrial action on 30 January in an escalation of their pay dispute. [www.rte.ie](http://www.rte.ie)

I. Outline three reasons, other than pay, for an industrial dispute.

II. Discuss the procedures which must be followed before official industrial action can take place. (25)

(i)

* Dismissal

The sacking of an employee for an unfair reason is grounds for a legitimate trade dispute. This includes constructive dismissal.

* Employment policy

The firm could recruit employees who are not qualified to do the job, and this could cause conflict with the existing employees. This gives rise to a legitimate trade dispute.

* Range of duties.

The employee should not be asked to perform tasks that are not in the work contract or to perform menial tasks in comparison to qualifications.

**(ii)**

**Procedure for going on strike:**

Employees must hold a “​**secret ballot​**” on strike action.

If the verdict is “yes”

* **One weeks’ notice ​**must be given to the employer.
* The strike must be sanctioned by ICTU**.**
* The employer may not block the strike with a “​**late night injunction​**” (Often held in a judge’s home.) It is sometimes called an ex­parte injunction as the employees or trade union officials are not present.

Outline two types of official industrial action available to employees involved in an industrial dispute with employers.

##### Official Strike ​

Labour is withdrawn in pursuit of a trade dispute.

Where the employees do not enter their workplace and do not do their work.An official strike involves a secret ballot, proper notification to the employer (i.e. one week’s notice) and sanction by ICTU.

##### ​Work to rule​

Where employees only undertake the exact jobs written in their job Description/contract. No flexibility is provided by staff to meet urgent/unforeseen Requirements.

**Illustrate the role of interest groups in business.**

***(10 marks)***

An interest group is a representative organisation outside of the political system, which puts pressure on other bodies to achieve an aim. This pressure can take the form of demonstrations, bad publicity, letters, petitions, strikes etc.

They attempt to influence policy decisions, which affect their members and are also called pressure groups.

# Example

The Consumer Association of Ireland have recently called on the Irish government to resist changes to **airline refunds policy** which involves passengers being offered vouchers in lieu of cash refunds.

**Describe, using examples, one co-operative and one competitive relationship that may exist either between or within organisations.**

***(20 marks)***

A co-operative relationship is one where joint action or effort is required to enable people to work and operate together so that everybody will benefit. It is a **winner-winner relationship**. There is a **mutual benefit** to each party.

# *Example*

The entrepreneur has a suitable idea and puts together a business plan to persuade the investor to advance funds. The entrepreneur makes a tidy profit and pays a good return to the investor. Both are happy.

A competitive relationship means that the parties are on different sides or have conflicting or are directly competing with each other.

This is a win lose situation.

*Example*

A chemical producer dumps its effluent into the Irish sea as this is the cheapest method of disposal. The interest group Friends of the Earth stage a protest to highlight the damage caused to the environment and consumers boycott the producer’s chemicals.

**“Being decisive, creative and being prepared to take risks are personal characteristics often associated with entrepreneurs”.**

Outline these characteristics and support your answer with examples. (15 marks)

##### Decisive

They have an ability to act on the spot and a willingness to take responsibility for decisions.

They are single minded in their approach and do not blame others.

Example

Robert Mizell a singer set up a business making furniture when the pandemic temporarily took his income from showbusiness.

##### Creative.

A person looks for something original which will not be in direct competition with other firms. Entrepreneurs look for products and ideas that will set their firm apart. Having identified a gap in the market the entrepreneur gains satisfaction from doing something new and bringing it to market.

Example

Noel Reeves a set designer at Trade shows and exhibitions set up a pizza making business during lockdown.

##### Being prepared to take risks.

They would take calculated risks, which have been minimized. These would be financial and a person’s reputation. They are not afraid of failing. Some people are excited from taking risks; they are prepared to take calculated risks in pursuit of business success; seizing opportunities and doing something new.

Example

Ray O Donoghue a music promoter and DJ set up a music and surfing festival called Sea sessions.

### Define Enterprise

### (10 Marks)

##### Enterprise ​is being innovative​ and creative while taking ​personal/financial risk ​to achieve one’s goal.

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

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

### (i) What is meant by the term SWOT analysis?

***●*** **Strengths, Weaknesses, Opportunities, Threat’s analysis**

It is used at the pre­planning stage and breaks the business down into four categories. It brings a structure to the planning process and improves the organising process.

### (ii) Conduct a SWOT analysis on a business of your choice. (Include two points under each heading)

Name of Business: Nivea

##### Strengths

* Nivea has strong brand recognition.
* It has a strong financial base.

##### Weaknesses

* Is the product still relevant?
* Is the market research up to date.

#### Opportunities

* New male skincare products
* To convert new customers to use current product.

#### Threats

* New competition in the industry
* Consumers are more knowledgeable and expect more.

Exam Watch Strengths and Weaknesses are internal issues and Opportunities, and Threats are external issues. It is wise to include two points under each stage.

Describe the functions of the different meetings held by limited companies. (20)

##### Annual General Meeting​ (AGM) This is a meeting held once a year and attended by the directors and shareholders of the company.

The main functions of the AGM are as follows.

* + The shareholders elect a board of directors.
  + The shareholders appoint auditors.
* The chairperson gives a report on company performance.
* The **auditor’s report** presents the accounts.
  + Shareholders have an opportunity to question directors in public on company policy.
  + **Declare a dividend**.

##### Extraordinary General Meeting (EGM)

This is a meeting of the shareholders and company directors held to discuss a matter of urgency that cannot wait until the next AGM. There is no other matter discussed at this meeting.

**Board Meetings**

These are meetings of the board of directors and are usually held monthly. Progress and performance are discussed, and tactical and strategic plans are formulated. Problem solving is a key function of board meetings.

Distinguish between the duties of a chairperson and a secretary in the organising and running of an Annual General Meeting. (20 marks)

##### Duties of the Chairperson

* To ensure that the meeting is conducted in an orderly fashion.
* Sets the agenda – (list of items to be dealt with at the meeting). The Agenda should be relevant to those at the meeting.
* Open the meeting – ensure a quorum is present – (minimum number of people present to make a meeting legal).

##### Duties of the Secretary

* Sends out the notice and agenda to all those who are entitled to attend. This should be sent out in plenty of time giving members or shareholders time to prepare for the meeting.
* The secretary arranges a suitable venue ensuring that essential resources such as refreshments, audio-visual equipment and seating plans are in order.
* The secretary informs the meeting of important correspondence and documents received by the organisation.

**DO NOT OVERLAP COMMON POINTS.**

Define Planning

Outline how different types of planning contribute to Educaprints business success. (25)

**Planning** is the setting out of specific goals and objectives for the business; it involves the putting in place of strategies that allow you to achieve the stated goals and objectives. Planning ensures that a firm considers its future and how it will achieve continued success.

Planning gives a firm purpose and direction and reduces risk and uncertainty. ​

**Strategic Planning​**:

This is long term planning covering a period of five years or more. Itis usually drawn up by senior management and it outlines how the long-term goals of the firm are to be achieved e.g. EducaPrint Ltd may decide to expand its successful business model into the UK publishing market.

​**Tactical Planning:**

**​**This is short-term planning which breaks the strategic plan into shorter more manageable periods. It deals with the ‘now’ part of the plan. It is usually drawn up by middle management e.g. EducaPrint Ltd might attempt to target a new group of customers next year.

**Contingency Planning​**:

This is back­up planning to cope with emergencies/ unforeseenevents and unexpected circumstances. Contingency plans benefit EducaPrint Ltd by preventing disruptions to business and thereby preventing loss of profits and possible business collapse e.g. EducaPrint Ltd may have alternative suppliers of paper available for its traditional print books.

Define **Delegation**

Outline the benefits of Delegation to the success of a business.

(25)

**Delegation**

Is the assigning of tasks among the subordinates by the superior and this is to improve efficiency e.g. the owner of a factory hires a production manager to oversee factory operations. The manager keeps responsibility, has to have authority, and has some sort of power in terms of the chain of command.

There will be a span of control which is the ideal number of subordinates under the instruction of a superior.

**Benefits of delegation.**

It improves efficiency.

The tasks are completed faster and more efficiently as the work is being shared among the group.

It encourages intrapreneurship.

The assigning of tasks encourages employees to be innovative within the business and more customer driven.

Good morale and motivation

Employees feel closer to the action in the firm and are trusted to work on their own and this results in greater productivity.

Easier to manage.

Managers can prioritise tasks that need their attention, thereby having more time for the completion of these tasks and for managing i.e. planning etc.

Explain the methods a business could consider minimising the risk of bad debts as part of its credit control system. (20)

Credit Control is tracking the levels **of debtors** in the business.

This ensures that the firm deals with the **right debtors ​**and minimises bad debts e.g. uncollected debts would be minimised.

It sets levels of credit e.g. €1,000 for any single customer. This restricts the outstanding amount to any one debtor at any given time and reduces the prospect of bad debts.

It sets time limits e.g. payment within 30 days. A defined collection system with prompt invoicing and regular reminders reduces the prospects of bad debts.

Cash Sales only. If the business insists on cash upfront only or 50% on order and the balance before delivery it prevents bad debts.

Carefully assessing the creditworthiness of potential debtors. A customer reference or bank reference would reduce the risks of bad debts.

**GREAT CHANCE OF REAPPEARING**

### Unit 3

**Describe leadership. Outline three leadership styles.**

**(25 marks)**

Leadership is the ability to influence others and to direct them towards achieving goals. It allows a manager to have a positive impact on how others behave. The authority of the leader must be recognised by the group. The group must have a shared common objective. The leader delegates tasks among the subordinates.

The main leadership styles are:

***Autocratic***

This type of leader prefers to rule with an” iron fist”. Persuasion is using intimidation and fear tactics. This type of leader has no place in modern educated workplaces.

This manager does not trust the workforce and does not include them in the decision-making process.

**The result** is poor morale and an unhappy workforce.

***Democratic***

This leader brings the workforce along with them rather than forcing them to follow. Workers are trusted therefore work is delegated.

Responsibility is shared and persuasion corresponds to the wishes of the majority of workers.

**The result** is a highly productive workplace with high morale

***Laissez-faire***

This type of manager sets targets and then steps back and lets the worker get on with the work. The only interference is in extreme circumstances. Workers have a “free reign” but this style only suits highly skilled jobs e.g. computer programmers.

**The result** is a loosely managed but creative workforce

*Exam watch* It is not wise to overlap points if contrasting Autocratic and Democratic styles as you may lose marks for repetition and while autocratic leadership may exist in the army the question will relate to a business.

**Explain, using examples from a business, how each of Maslow’s hierarchy of needs can be met.**

**(20 marks)**

A business can meet Maslow’s five needs in the following way:

## Physiological needs

The firm should pay over and above the legal minimum wage to ensure that the worker can afford to pay for basic food and shelter for their dependents.

## Safety needs

A firm should ensure that the worker feels safe from the fear of redundancy. The firm could offer a guarantee of employment to the staff e.g. a letter of guarantee.

## Social needs

The firm should provide time for social interaction both in the workplace and outside working hours e.g. rotating seating arrangements in the work canteen and free meals after work on a Friday.

**Esteem needs**

Management should recognise an employee’s efforts and praise them when necessary. The firm could promote staff as a reward for their efforts and offer them visible rewards e.g. a bigger office. They should also be included during the decision-making process.

## Self-actualisation

Management should recognise that workers are the best at what they do and have reached the pinnacle of their career. These employees should be encouraged to train and develop new staff and be rewarded for doing so.

**Exam watch** the stages must be named correctly and in the exact order.

**Describe the three main short-term sources of finance used by a business**

**(20 Marks**)

### Bank Overdraft

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

### Trade credit (leaning on the trade)

Firms may buy stock for resale on a “buy now and pay later” basis. The amount of credit available is influenced by the creditworthiness of the firm. There is no direct charge, but cash discounts may be forgone.

### Accrued Expenses (Bills that are due or owing)

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

There is the danger of disconnection of service in the event of missed payments.

Exam Watch Short term sources **for less than 1-year** feature very often on the exam.

Pay as You Earn (PAYE), Value Added Tax (VAT), and Corporation Tax are examples of taxes relevant to a business.

(i) Explain each tax underlined above.

(ii) Evaluate the implications of each tax for a business. (25)

PAYE

Workers who earn an average weekly or monthly wage usually for somebody else pay tax under this system.

A person’s tax-free allowance cert is now called a certificate of tax credits. This shows a person’s “tax credits” and the standard rate cut off point which is €35,500 for a single person.

A tax credit reduces the amount of tax that a person pays. It is an allowance or discount.

The tax rate is the % charged in PAYE and currently the figures are 20% and 40%.

**Evaluation and implication**

In my opinion the PAYE system could be simplified for business to reduce the levels of administration.

High PAYE rates also act as a deterrent to work and reduces the supply of labour available to the business.

### VALUE ADDED TAX

This is a tax on goods and services charged by the business on behalf of the Revenue Commissioners.

VAT is a tax on consumer spending. It is collected by VAT-registered traders on their

supplies of goods and services effected within the State, for consideration, to their

customers. Generally, each such trader in the chain of supply from manufacturer through

to retailer charges VAT on his/her sales\* and is entitled to deduct from this amount the

VAT paid on his/her purchases.

**The top rate is 23%**

**Evaluation and implication**

In my opinion, the top rate of 23% increases the prices of many goods and services and this reduces demand which has a negative effect on the business.

### Corporation Tax

Companies pay Corporation Tax. This tax is charged on the company’s profits which include both income and chargeable gains.

The rate is currently 12.5% which is much lower than the UK rate of 19%.

All company profits are liable and not just the 1550 Foreign Direct Investment companies here.

**Evaluation and implication**

In my opinion, our low rate of Corporation profits is one of the key reasons for the presence of our large and essential Foreign Direct Investment companies.

The 390,000 associated jobs have kept the economy afloat during difficult times.

**Illustrate the usefulness of the debt equity ratio in helping a manager to monitor the financial performance of the business.**

**(20 marks)**

The Debt Equity Ratio is used to measure a firm’s long term financial make up i.e. its capital structure.

“Debt” is long-term debt provided by people outside of the business in return for annual interest plus full capital repayment on a specific date.

“Equity” is ordinary shares and retained earnings and belongs to the owners of the business. They may receive dividends.

The ratio is:

Long Term Debt

Issued Ordinary Shares + Retained Earnings.

The relationship between debt and equity is also known as ***gearing.***

1. If debt exceeds equity, the firm is said to be **highly geared,** and this means that large amounts of funds are used to pay interest. This reduces the firm’s profits and its ability to pay a dividend to the ordinary shareholder (owners).
2. If debt is less than equity (**lowly geared**) the firm knows that it can obtain further borrowings and profits are not eroded by interest repayment

UNIT 5

Outline the reasons why businesses engage in prototype development. (15)

**Prototype development**

This is an essential stage of New Product Development.

is the creation of the **first working model** of a new product or when producing an update or an improvement of an existing product.

This cycle is the only method for **refining the original design to create a fully functioning product.**

At this stage, the original of the species is put together in a form suitable for testing.

It is important that the idea and design can be “married “into a product suitable for the consumer the prototype must be **suitable for full-scale production**, so testing is carried out. It is a lengthy and expensive phase.

It is important to develop a prototype for test marketing.

**HUGE CHANCE OF COMING UP**

**BREAKEVEN CHARTS**

Barton DAC supplies the following information about its activities

* Fixed Costs €300,000
* Selling price per unit €30
* Variable Cost per unit €15
* Forecast Output 40,000 units

Illustrate by means of a Breakeven Chart.

* Breakeven point
* Margin of safety
* Profit at Forecast Output (30 Marks)

Preparing a table is useful as the figures will pick up marks even if the chart is incomplete.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Units | FC | VC | TC | TR | P/L |
| 0 | €300,000 | 0 | €300,000 | 0 | (€300,000) |
| 10,000 | €300,000 | €150,000 | €450,000 | €300,000 | (€150,000) |
| 20,000 | €300,000 | €300,000 | €600,000 | €600,000 | BEP |
| 30,000 | €300,000 | €450,000 | €750,000 | €900,000 | €150,000 |
| 40,000 | €300,000 | €600,000 | €900,000 | €1,200,000 | €300,000 |

Draw in x axis at 10000 intervals about 6 square gaps.

Draw in y axis in €100,000 intervals about 2 squares gaps.

Put in Title at top

Label Units on x axis

Label € on the y axis

Plot the FC curve (It will be horizontal)

Plot the TC curve using our two points from the table (0, €300,000) and (40,000, €900,000)

Join the dots and label the TC curve.

Plot the TR curve using our two points from the table (0,0) and (40,000, €1,200,000)

Join the dots and label the TR curve.

Label BEP where TC and TR intersect.

Drop a vertical broken line from BEP to the x axis.

Bring a horizontal line from BEP to the y axis.

Bring up a vertical broken line from 40,000 units to top of chart.

Gap between the vertical broken lines is called the Margin of Safety.

Label Profit at present output between the TC of 40,000 units and the TR of 40,000 units

You may use broken lines like the example in the book.

We can test our answer by using the BEP formula.

FC

SPPU-VCPU

€300,000

€30- €15

**20,000 units**

Outline the factors the marketing manager of Intezz should consider when designing the packaging for the brand. (15)

Packaging is an important marketing tool, as it remains with the product at point of purchase until the product is used. It also gives the product a **good visual image and, through display techniques, distinguishes it from competing products.**

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

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

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

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

Evaluate the benefits and challenges for a small start‐up business of choosing a direct channel of distribution rather than selling through wholesalers and retailers. (15)

Benefits

**Cost:** Cost is a factor in choice of channel of distribution. The more stages in the channel of distribution the more expensive the product will be for the consumer as each **middleman** will require a cut or mark-up. **Ryanair** was motivated by cost factors when it cut travel agents out of its ticket sales distribution network.

**Full control of the distribution system.** The firm using the direct channel is not depending on any other links in the chain and has full responsibility for the distribution chain.

Challenge

**Difficult to gain brand recognition.** A firm selling directly does not get a chance to expose the product to the target market as traditional well-established wholesaler and retailers have a loyal customer base.

**Evaluation**

In my opinion the firm that deals directly with the customer has significant savings on costs that outweigh the negatives of lack of product awareness.

Example

A schoolbook producer must pay a margin of 55% to a wholesaler to get onto the right websites and be stocked in shops that sell schoolbooks.

Describe three reasons for business expansion other than to increase profit. (20 marks)

*To safeguard supplies of essential raw materials*

An expanding enterprise may find it attractive to completely control its source of raw materials. Cadburys own their own cocoa plantations and are not vulnerable to supplier problems.

*To ensure financial security*

Expansion increases the financial strength of the enterprise. Larger firms tend to fare better during an economic crisis. E.g. Kingspan (building materials company in Co. Cavan) – bought in UK and US to expand globally and become a larger force to remain competitive.

*To diversify*

Firms do not like to have “all of their eggs in the one basket”. Trabolgan holiday centre see diversification as being the key to surviving in a tough market. They have diversified from the traditional family holiday market to the more profitable corporate clients and sporting clients.

## 

## Outline the factors to be considered when choosing a source of finance.

## (20 Marks)

1. **Cost:** a business should try to obtain the cheapest source of finance available. The rate ofinterest is of great importance. All loans advertised by financial institutions should quote the **APR**. Close examination of the **APR** attached to each type of loan finance is needed whenmaking the choice.

A typical commercial mortgage in Ireland is 4%

1. **Purpose/Correct match:** sources of finance must be matched with uses e.g. a long-termbusiness expansion plan should not be financed by a bank overdraft. Assets which are going to last a long time are paid for with long term finance. Day-to-day expenses are financed or paid for with short term finance. The firm should clearly distinguish between the three sources of finance and the timeframe for use and repayment.
2. **Amount:** large amounts of money are not available through some sources. Some sources offinance may not offer flexibility for smaller amounts.
3. **Control:** issuing new voting shares in a company could lead to a change of power. The useof loan capital will not affect voting control but financial institutions such as banks may take control of fixed assets or impose conditions as part of the loan agreement. Recent acquisition at Kerry Group has diluted original farmer ownership stake.

Exam watch this topic appears in both the Finance chapter in unit 4 and in Getting started chapter in unit 5. This is important for ABQ purposes.

**Evaluate the elements of the marketing mix using a product or service of your choice.**

**(35 marks)**

Name: Nike

Product:

The product is made up of the detailed characteristics, which the item has to offer. Its aim is to satisfy consumer’s needs and wants but it must be produced profitably.

The product includes all the extra features.

It includes design, packaging, branding, and the product life cycle

Research and development have a major impact on the product e.g. learning to cut down on the number of component parts.

*For example*, the business continues its investment in research and development to produce new products and enhanced versions of its current products

Price**.**

The price is extremely important as we attempt to satisfy consumers’ needs and wants profitably. The price will attract or discourage customers, and some will be sensitive to price changes and others will take less notice

Various factors and pricing strategies are considered by Nike.

In relation, the premium pricing strategy involves high prices, based on a premium branding strategy that establishes Nike products as higher in quality and value than competing products.

# Place (Channels of Distribution)

Although figures vary widely from product to product, roughly a fifth of the [cost of a product](http://www.thetimes100.co.uk/theory/theory--calculating-costs-production--207.php) goes on getting it to the customer. 'Place' is concerned with various methods of transporting and storing goods, and then making them available for the customer. Getting the right product to the right place at the right time involves the distribution system. The choice of distribution method will depend on a variety of circumstances. It will be more convenient for some [manufacturers](http://www.thetimes100.co.uk/theory/glossary--manufacturers-836.php) to sell to wholesalers who then sell to retailers, while others will prefer to sell directly to retailers or customers.

The following places/venues form Nike’s distribution strategy, arranged according to significance:

1. Retail stores
2. Nike Online Store
3. Nike town retail outlets (company-owned)

Retail stores are the most significant places where Nike products are sold because these venues are strategically located and easily accessible in various markets around the world.

# Promotion

*Promotion* is the 4th P and is concerned with communicating with customers and potential customers. Its purpose is to inform the public that the firm has something available, which will exceed the customers’ needs and wants.

An action taken by a company's marketing staff with the intention of encouraging the sale of a good or service to their target market.

It includes

1. Advertising
2. Sales promotion (gimmicks)
3. Public relations and sponsorship
4. Personal selling

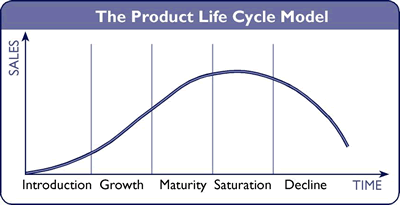
Advertising is one of the biggest contributors to Nike’s ability to attract customers. The company heavily relies on advertisements, especially those that involve high-profile celebrity endorsers, such as professional athletes and sports teams. This element of the company’s marketing mix also includes personal selling through sales personnel who persuade target consumers to buy the company’s products. For example, sales personnel at Nike town retail outlets are trained to use such persuasion.

### *Evaluation:*

In my opinion the Nike marketing mix has been very successful, and the company reported annual sales revenue of $39 billion for the year 2019.

Exam watch course knowledge of the Marketing Mix is more important than the examples in the above answer.

Illustrate what is meant by the Product life cycle and describe the stages of the cycle (30 marks)



**Introduction:**

Sales are slow as the product is not yet known. Costs are high due to heavy marketing spend to create awareness. Emphasis is on advertising and distribution. The recently launched **Keoghs Popcorn** is anexample.

**Growth:** This stage shows growing market acceptance and increasing profits. Competitors begin to enter the marketplace. The business concentrates on optimising product availability. **The Kerry gold garlic bread** range is an example of brand at growth stage.

**Maturity:** The rate of sales growth slows down as the product has been widely distributed and sold. The company now focuses on creating brand extensions and promotion offers to boost sales. New product research is critical to ensure future sales. The **Cadbury Snack** range is an example of a brand at the maturity stage.

|  |
| --- |
| **Saturation:** Sales slowdown as the market becomes saturated. Profits level off and may even decline due to increased investment in marketing to defend against competitors. **McDonald’s** is an example of a brand that has reached saturation stage.  **Decline:** Sales slow down dramatically, and profits fall off. The product may be dropped to make way for new products and the cycle recommences**. Cadbury’s crème egg** is an example of a brand that has reached the decline stage.  **Exam Watch** the chart must be labelled fully and a good description is needed at each stage. |