

THE HIGHER OPTION



APPLIED BUSINESS QUESTION

- 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
- **ALWAYS REFER TO THE PASSAGE**
- **Expect big topics from the relevant UNITS.**
- **Last year it was;**
Planning.
Types of Taxes and Insurance
- **Price and Promotion from the Marketing Mix**

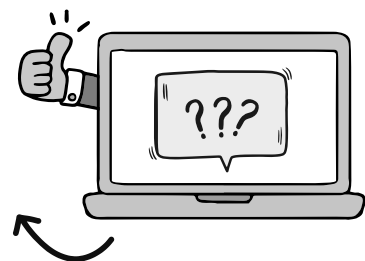
METHOD
WHEN ANSWERING ABQs

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



N.B.:

- **There will be regular updates on my FREE website and lots of new ABQs for LCHL 2022 onwards:**
www.leavingcertbusiness.com
- **Ideal for NQTs**



Applied Business Question

Compulsory Section

80 marks (20%)

In Leaving Cert 2022 students will be examined on Units 4, 5 and 6

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

The applied business question needs practice and there are a range of ABQs here of the correct standard with suitable solutions.

A few basic guidelines should be followed

There are three specific 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.

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 rough work section e.g., listing human resources functions or the components of the Promotional mix.

Do as many sample questions as possible before the Mock as this will reduce the pressure later.

The following areas must be thoroughly studied, and the student should be able to

[recognise the important Higher Level topics](#)

UNIT FOUR

- outline the differences between managing a household and managing a business.
- explain the importance of finance, insurance, and tax implications for business.
- identify activities common to managing a business and a household, including completion of relevant forms.
- understand the similarities and differences between these activities in a household context and in a business context.
- calculate and interpret the main profitability and liquidity ratios and debt/equity.
- explain the key functions of human resource management.
- explain the changing role of a manager from controller to facilitator.
- understand the importance of employee participation.
- understand how technology changes the role of management.
- understand the relationship between employers and employees and the role of trade unions.
- understand the central role of human resources in management (HL)
- identify the strategies for managing change (HL) [Exact Strategies](#)
- discuss the importance of total quality management (HL)
- understand the importance of accountancy and business data for the monitoring of the business enterprise (HL).

UNIT 5

- explain the importance of researching business ideas.
- identify techniques for developing business ideas and researching them.
- contrast the main sources of new product ideas.
- identify and explain the elements involved in a new business startup.
- explain the stages involved in setting up a new business.
- identify the main elements of a marketing strategy.
- explain the elements of the marketing mix.
- list the main sources of finance available for business start-up.
- identify the elements of production processes.
- illustrate the central role of the business plan.
- identify the reasons for and methods of expansion. [NB](#)
- identify three main sources of finance for expansion.
- analyse the importance of Irish business expansion in the domestic and foreign markets (HL).
- compare equity and loan capital as sources of finance for expansion (HL).
- evaluate the elements of the marketing mix (HL).
- apply the main sources of finance available for business start-up

[Finance overlaps Unit 4 and 5](#)

UNIT SIX

- recognise and illustrate the categories of industries and their contribution to the domestic economy.
- recognise the types of business organisation.
- compare and contrast the different types of business organisations.
- explain why businesses change their organisational structure over time.
- identify the importance of community initiatives in the development of the local economy.
- explain the impact of the economy on business.
- explain the impact of business in the development of the economy.
- identify important environmental issues in business.
- list the ways in which the Government creates a suitable climate for business.
explain the ways which the Government affects the labour force.
- define ethical business practice.
- describe the characteristics of an environmentally conscious company (HL) **CHAOS**
analyse the impact of environmental issues on business (HL)
- discuss the social responsibilities of business (HL) **NB**
- evaluate the effects on a firm's costs of meeting its ethical, social and environmental responsibilities (HL)

Sample Question suitable for 2022 exam.

Important Business Taxes	Important Business Insurance policies
PAYE	Employer Liability
VAT	Public Liability
Corporation Tax.	Fidelity Guarantee
Motor Tax	Product Liability
Commercial Rates	Motor Insurance

Short term finance	Medium term finance	Long Term finance
Bank Overdraft	Hire Purchase	Long term loan
Trade Credit	Leasing	Retained Earnings
Accrued expenses	Medium term loan	Ordinary Shares
Credit Card		

Human Resources Management functions	Strategies used to implement change
Manpower Planning.	Communication
Recruitment and Selection	Negotiation
Training and Development	Training and Development
Teamwork	Provide adequate funding
Performance Appraisal	Reward
Reward	
Managing Employer Employee relations	

Technology types	
Email	Contactless Payment
Website	Streaming
EDI	Skype
CAD/CAM	Zoom
Spreadsheet	Smartphone
Wi-Fi	Videoconferencing
Database	Dial In network capability

Stages of NPD
Idea Generation
Screening of ideas
Concept Development
Feasibility study
Prototype Development.
Test Marketing
Full launch and Evaluation

Marketing Mix

PRODUCT/Needs and wants/Design/Packaging/Branding/Product Life Cycle

PRICE/Factors/Strategies.

PLACE/Channels of Distribution

PROMOTION/Advertising/Public Relations and Sponsorship/Sales Promotion/Personal Selling.

Methods of Expansion

Merger

Takeover

Strategic Alliance

Franchising

Categories of Industry

Primary

Secondary

Tertiary

Key Words Community Development

Local

Self-help

Social benefits of CD

Economic benefits of CD

Agencies on the course

Local Enterprise Office

LEADER

SOLAS

Area Partnership Companies

Impact of Business on the Economy

Creates Jobs

Spin-off effect/Multiplier.

Contributes taxation to exchequer

Exports improve Balance of Trade

Competition saves resources

Impact of Economic variables

Inflation

Interest Rates

Taxation

Unemployment/Employment

Grants and Subsidies

Economic Growth

Types of Organisations

Sole Trader

Partnership

Designated Activity Company

Companies limited by Shares

Public Limited Company

Alliance

Franchise

Indigenous firm

Co-op

Transnationals

State sponsored Body

Phoenix Aero

This is a compulsory question based on Units 4,5 and 6



John Wiley has an impressive curriculum vitae in the world of technology with 15 years' experience. His latest venture is Phoenix Aero a fascinating new venture focused on using drones to deliver goods. Originally the business focused on food deliveries but with the onset of Covid-19 it has pivoted in the direction of delivering medication and critical supplies to vulnerable people. The business now delivers medicines, weekly groceries and parcels due to the growth in E-Commerce which rapidly expanded during the full lockdown phase of the pandemic. Phoenix Aero has made a breakthrough in transport platforms that could make much of the transport of goods by road a thing of the past.

John is all too aware of the importance of getting the finance right for the new start-up. The daily operations of paying wages, drone running costs, rent and utilities all have to be considered. He has acquired a small fleet of vans complete with branding on the side. A purpose-built warehouse has been completed outside Athlone at a cost of €500,000. Long term funding has been secured from Enterprise Ireland and a consortium of investors.

John has hired Mary Smyth as Human Resources manager and sees her role as being vital to the success of the start-up. Mary initially estimated the number of employees needed to get the business off the ground. She has used the agencies Monster and Indeed to help to attract and select the right people to fit seamlessly into the business. A series of induction programmes have been put in place to prepare the staff for the challenges that lie ahead. Mary has organised the firm into small groups of staff working under a group leader. She believes in meeting the staff regularly to review progress. Employees in the firm are well rewarded and there are promotion prospects available for those reaching their targets.

The new business has had a positive impact on the local area. A community development strategy had been put in place in 2015. The local area had suffered from high unemployment and emigration since the construction crash of 2009. Phoenix Aero employs 46 people and due to its success delivering medicines to isolated areas will expand in the near future. The business has allied itself to a midland's pharmacy chain on a profit-sharing basis. All essential materials and services are obtained locally. The firm has improved the quality of lives in the area as the drone deliveries are a lifeline to remote communities. Local pubs, cafes and petrol stations are all reporting increased business since Phoenix Aero was set up. The local GAA club has also gained new members and players as the business has grown due to the influx of people into the area.

(A) Outline the functions of Human Resources Management at Phoenix Aero (30 Marks)

(B) Describe the main types of sources of finance used by Phoenix Aero at the start up phase of the business (30 Marks)

(C) (I) Define Community Development.

(II) Outline three positive effects that Phoenix Aero has on the local area. (20 Marks)

(A)

The main Human Resources Management functions used by Phoenix Aero are

Manpower Planning

This is the assessing of the firm's people needs and the forecasting of people needs for the future.

Human Resource managers must stick within certain budgetary requirements as set out by the cost accountant.

A staff audit is carried out and this analyses the skills and expertise that exists within the firm.

Mary initially estimated the number of employees needed to get the business off the ground.

Recruitment and Selection

This process is essentially concerned with finding, assessing and engaging new employees.

Recruitment is concerned with attracting a group of candidates to apply for a given vacancy.

Selection is the process of choosing the most suitable candidate from a pool of candidates identified through recruitment.

She has used the agencies Monster and Indeed to help to attract and select the right people to fit seamlessly into the business

Training and Development.

Training is the acquisition of the knowledge skills and abilities required to perform effectively in a given role.

Development is a broad concept that is future orientated and concerned with the growth and enhancement of the individual. It helps the person to blend into the firm's corporate culture. It focuses on the individual's potential and future role in the workplace.

It focuses on ability, understanding and awareness

A series of induction programmes have been put in place to prepare the staff for the challenges that lie ahead

Teamwork

This is seen as an advanced form of delegative participation whereby workers make key decisions. In Ireland employers are the main instigators of teamwork.

Significant investment in training and development is needed.

Job security commitments must be provided.

The aim of teamwork is to flatten (delayer) the organization structure.

Teams have a common purpose.

Mary has organised the firm into small groups of staff working under a group leader

Performance Appraisal

This is a systematic approach to evaluating employee's performance, characteristics, or potential with a view to assisting with decisions in a wide range of areas such as pay, promotion, employee development and motivation.

A performance review is held once or twice yearly.

She believes in meeting the staff regularly to review progress.

(A) Describe the main types of sources of finance used by Phoenix Aero at the start-up phase of the business (30 Marks)

Long-term Finance.

Finance for time periods greater than 5 years.

Ordinary Share Capital

Shareholders are the owner of a company

They have control of the firm— a say in how the company is run and make decisions.

They are the risk takers.

Their Return is called *dividends*.

Last people to receive money if company goes bankrupt.

A purpose-built warehouse has been completed outside Athlone at a cost of €500,000.

Long term funding has been secured from Enterprise Ireland and a consortium of investors.

Hire Purchase:

This is a method of finance that would allow firms to purchase an asset such as a transport vehicle over a five-year period or less.

The firm will get immediate possession of the transport vehicle; however, **ownership does not transfer until the last instalment is made.**

HP is an expensive source of finance. No security is required but the HP Co. may repossess the asset if there is a default in repayments.

He has acquired a small fleet of vans complete with branding on the side.

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.

The daily operations of paying wages, drone running costs, rent and utilities all have to be considered

(C)

(I) Define Community Development.

(II) Outline three positive effects that Phoenix Aero has on the local area. (20 Marks)

Community development refers to the improvement of local areas and local communities socially and economically through the efforts of local citizens and residents. Community development is about self-help/spirit of enterprise as opposed to depending on the government or outside agencies to help them develop. The aim of community development is to improve the local social and economic infrastructure

Creates employment and thereby increases spending in the local economy

New enterprises such as Phoenix Aero set up and provide employment in the local areas and thus develop their local economy.

The new enterprises and initiatives can create jobs for the area.

Phoenix Aero employs 46 people and due to its success delivering medicines to isolated areas will expand in the near future.

Spin off jobs e.g., transport, education

The establishment of business enterprises in a local community brings an immediate increase in the levels of direct and indirect employment.

This new employment sees an increase in demand for goods and services in the area. e.g., transport, education, entertainment etc. This has the spin off effect of increasing sales for other businesses in the area

Local pubs, cafes and petrol stations are all reporting increased business since Phoenix Aero was set up.

Social Opportunities

The new business improves the locality by preventing depopulation and in this case also has improved community organisations such as the GAA club.

The drones have been used also to deliver medicines during the lockdown period.

Any local amenity which provides a space for people to meet and socialise will improve the social fabric of an area by creating a sense of belonging and pride in the area

The firm has improved the quality of lives in the area as the drone deliveries are a lifeline to remote communities

Willow Chocolates

In 2011 Jack Geraghty took a redundancy package from Barleyfield sweets a well-established confectionery company in the West of Ireland. He had contemplated self-employment for many years. He had a good knowledge of the sweets and chocolate market after spending the previous 18 years as a production supervisor and was responsible for introducing the ISO Quality certification system to Barleyfield. After securing finance from a local bank and through the Sligo Local Enterprise Office he proceeded to follow the relatively risky route of niche chocolate products. Funding was acquired to buy a 3000 square metre industrial unit on the outskirts of Sligo town. He entered into a lease arrangement for production equipment and also a suitable facility was arranged with his bank to cover the day to day running costs of the business.

After a difficult initial trading period Jack carried out extensive market research on the specialised vegan chocolate market. After much deliberation a plant-based chocolate made from an almond paste was chosen. The brand name "Plant Bar" was registered as a trademark and the unique selling point was the "chocolate taste but without the dairy". The green packaging chosen was made from 100% recyclable materials and the bar design was a 90g portable shape. The Plant bar was launched at a local Ecotaste festival and was trialled through the Irish Vegan society as part of their Veganuary campaign earlier this year.

The company have posted profits for this trading period of €278,000 and new investors have made enquiries about a potential equity shareholding. The workforce has doubled to 74 full time employees to cope with the demand for the latest product. The company now exports to the United Kingdom where the vegan population is ever growing and have secured a deal with Sainsburys supermarkets. Ingredients are sourced locally providing a boost to the area and solar panels power the factory.

Specially made packaging is supplied by a local printing firm.

Jack is delighted with his newfound success and is currently working on new vegan products in this lucrative target market.

(A) Describe the main sources of finance that would be needed by the above business. Refer to the text to support your answer (25 Marks)

(B) Analyse the use of the "Product Mix" in the above passage. Refer to the text to support your answer. (25 Marks)

(C) Outline the impact of Willow Chocolates on the local economy in Sligo and on the Irish economy. Refer to the above passage to support your answer. (30 Marks)

(A)

Ordinary Share Capital – (Equity) Shareholders are the owner of a company (DAC/ Plc). They have control of the firm– a say in how the company is run and make decisions. They are the risk takers. Their Return is called dividends. They are the last people to receive money if company goes bankrupt.

Funding was acquired to buy a 3000 square metre industrial unit on the outskirts of Sligo town

Leasing:

This would involve the renting of an asset by the individual firm from a finance 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.

He entered into a lease arrangement for production equipment

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.

A suitable facility was arranged with his bank to cover the day to day running costs of the business.

(B) 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.

After much deliberation a plant-based chocolate made from an almond paste was chosen

Design refers to all the external features of a product e.g. shape and pattern. The value of this approach is that the specific needs of the consumer will be met in line with the marketing concept. This will lead to repeat purchasing, consumer loyalty and ultimately increased sales and profits for the business.

the bar design was a 90g portable shape

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.

The green packaging chosen was made from 100% recyclable materials

A brand is a distinguishing mark, feature or name which allows instant customer recognition e.g. A brand is legally registered 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.

The brand name "Plant Bar" was registered as a trademark

'Product Life Cycle' The period of time over which an item is developed, brought to market, and eventually removed from the market. First, the idea for a product undergoes research and development. If the idea is determined to be feasible and potentially profitable, the product will be produced, marketed, and rolled out. Assuming the product becomes successful, its production will grow until the product becomes widely available. Eventually, demand for the product will decline and it will become obsolete.

The Plant bar was launched at a local Ecotaste festival and was trialled through the Irish Vegan society as part of their Veganuary campaign earlier this year.

(C) The business has impacted on the local economy as follows

The positive impact of business activity on the Irish economy is as follows:

- Creates jobs.

Jobs are created in all sectors e.g. agriculture, factories etc. By paying all the bills expenses of the business further jobs are created. (Unemployment rate 7%)

The workforce has doubled to 74 full time employees to cope with the demand for the latest product.

- Purchase of inputs/raw materials

One business has a knock-on effect on several suppliers, generating further wealth and boosting the economy. Local suppliers benefit from the new business generated by Willow chocolates.

Ingredients are sourced locally providing a boost to the area and solar panels power the factory.

Specially made packaging is supplied by a local printing firm.

National Economy

Businesses pay taxes on profits.

The firm is a company which is profitable and is therefore liable to pay Corporation tax at 12.5%. This is after putting legitimate expenses through the books.

The company have posted profits for this trading period of €278,000

Improves the Balance of Trade

This is the difference between visible exports and visible imports. The chocolate is a physical export to the United Kingdom, and this injects wealth into the Irish economy.

Fly home DAC

The new board of Fly Home DAC has decided to re-brand the airline. Major changes are needed in an ever-changing industry and cost cutting and the elimination of waste is essential. In order to protect the 1000 existing jobs, it is necessary to improve work methods and overall staff productivity. Fly Home's management should be open and honest with all staff regarding the need for change. It has been agreed by the board that a joint consultative committee of employee and employers is necessary to facilitate the change. Major changes are needed post pandemic to restore financial viability to the airline. Training is needed to prepare the challenges that lie ahead to successfully implement the necessary changes.

The re-launched Fly Home aims to be a low-cost low fares airline providing point to point services across the European air travel market. It aims to deliver its service at the lowest unit cost of any airline in Europe. The brand aims at passengers who prefer low fares and are suited by a no-frills approach. The new brand aims to attract repeat sales and aims to carry 10 million passengers in 2023. Fly Home wish to provide a service that is dedicated to its customers and delivers a service where passengers consistently arrive on time.

Fly Home Ltd are also overhauling its relationship with key stakeholders. They wish to introduce a Corporate Social Responsibility programme to enhance the stakeholder relationship. The airline App has been improved to improve the customer experience. The credit control department settles all invoices 14 days after presentation. A new eco-friendly aviation fuel has been introduced to reduce the emission levels. A sports and social club for employees has been set up and funded by the airline.

- (A) The board of Fly Home wish to implement change. Outline strategies that could be used to facilitate the smooth implementation of change in the organisation. Refer to the text in your answer. (25)
- (B) Outline the benefits of "branding" for an airline like Fly Home. Refer to the text in your answer. (25)
- (C) Describe the benefits to Fly Home of the introduction of social responsibility to stakeholders. Refer to the text in your answer. (30)

A. The following strategies could be used to successfully implement change

Openness

Consultation between management and staff is essential through all stages of the process. A meeting could be held outlining the details in an open and honest fashion.

“Fly Home’s management should be open and honest with all staff regarding the need for change.”

Decision-Making

Staff should be included in the decision-making process and workers’ opinions are essential to future progress. Staff inclusion helps to implement the proposed changes. The economic benefits of change should be explained clearly to all employees of the firm.

“Cost cutting, and the elimination of waste is essential”

Training

Staff should be prepared properly by the firm for the challenges, which lie ahead. Staff will fear change until they understand the new systems and work practices.

“Training is needed to prepare the challenges that lie ahead to successfully implement the necessary changes”

Patience and commitment

It is important that management give the project their full commitment. Patience is imperative for all parties as all new projects have teething problems. All changes should be monitored and reviewed on a regular basis.

“a joint consultative committee is being set up between employers and employees.”

B. A brand is legally registered as a trademark, which gives exclusive rights to the owner. The benefits of branding for Fly Home are

It provides instant recognition in the eyes of consumers and an effective brand name helps the product to achieve market standout.

Fly Home customers will recognise the

“Low fares airline with the no frills approach”

A good brand is associated with quality and consistency. The consumer knows what to expect. Fly Home wishes

“To deliver a service where passengers consistently arrive on time”

A good brand name creates an image for the product of confidence and acceptability and consumers become loyal to the product. Fly Home customers and potential customers will develop loyalty to the product.

“The new brand aims to attract repeat sales”

A brand facilitates the advertising campaign and the launch of new European routes whereby passengers will know what to expect. This will be useful as the airline plans **“To carry 10 million passengers in 2023”**

C. The benefits to Fly Home of social responsibility are

Employees

- Adhere to Employment Law, Health and Safety Regulations etc.
- Pay a fair wage to all employees.
- Provide a safe working environment.
- Treat employees with dignity and respect/no discrimination.
- Provide equal opportunities for promotion, pay etc. to all employees.

A sports and social club for employees has been set up and funded by the airline.

Customers

- Fair and honest advertising of its product
- Abide by health and safety regulations; products must be safe.
- Goods must be of merchantable quality, match their description, fit for purpose etc.
- Uphold the right of the customer to complain and to investigate such complaints.
- Good after-sales service
- Charge a fair price.

The airline App has been improved to improve the customer experience.

Suppliers

- Always pay them on time
- Always give adequate notice when placing an order LEAD TIME
- Use a fair tendering system going for the best quality based on the price charged.

The credit control department settles all invoices 14 days after presentation.

Society

- To be environmentally conscious; to implement environmentally friendly business practices.
- Co-operate with government offices e.g., EPA.
- Openness and transparency
- Recyclable packaging, clean manufacturing, sustainable development.

A new eco-friendly aviation fuel has been introduced to reduce the emission levels.

APPLIED BUSINESS QUESTION

Good4wood Ltd

Gerry Burke established his wood preservative business on a green field site in County Leitrim in 2013. The initial funding consisted of his own savings of €100,000 together with €25,000 each from his two brothers who also hold seats on the board of directors. Decision-making is shared by the brothers and things have worked reasonably well to date. Gerry recently hired outside consultants to carry out an independent appraisal of the businesses production techniques. The results have shown that the firm although profitable is guilty of wasting resources. Quality standards are also poor, and many raw materials never see the finished goods stage. The employees have no real targets to aim at and there are no incentives to improve. The consultants feel that the emphasis on quality and a customer orientated approach only exists at sales level. It is expected that a zero defects approach will help to improve efficiency.

Despite the problems Gerry has been told by an IDA Ireland official that the area has been chosen by an American timber products multinational to set up a plant in the nearby town. A favourable tax system, Government investment and access to the European Union and single market are just some of the reasons put forward by the official as to why the area was chosen. Irelands education and training system also enhances the country as a location. It is also the only English-speaking member of the eurozone. Gerry immediately recognizes the opportunities and the linkages that could be developed between his small indigenous firm and a large multinational in a similar industry.

A meeting of the brothers was held and all three were excited at the prospects of developing a lasting business relationship which would lead to the supply of raw materials to the multinational. A provisional expansion plan was drawn up and they discussed the idea of funding the expansion by debt. They felt that this method would protect the decision-making process of the firm as control would not be diluted by the existence of new shareholders with voting rights. They feel that the collateral requirement of funding by debt poses a threat from external creditors. The brothers also agreed to introduce a system of Total Quality Management immediately in line with the consultant's proposals. They are of the opinion that with

cost savings on one hand and a higher quality product and the possibility of a lucrative contract with the new firm on the other that servicing the debt will not be a problem

- A. Analyse how the introduction of a system of Total Quality Management would help the above business. Refer to the text to support your answer. (30)
- B. Contrast the use of equity and loan capital as sources of finance for expansion. Which method is more appropriate for the above firm's present needs? (30)
- C. Outline the reasons why Transnational companies choose to locate in Ireland. Refer to the text in support of your answer. (20)

- A. Total Quality Management is a systematic approach whereby quality permeates the entire firm and includes all employees, all resources and all of the various departments.

"The brothers also agreed to introduce a system of Total Quality Management immediately in line with the consultants' proposals."

It focuses on a customer-orientated approach and is based on continuous improvement, which ultimately satisfies more needs and wants of customers and their satisfaction is the only lasting means of business success.

"The consultants feel that the emphasis on quality and a customer orientated approach only exists at sales level."

It reduces waste and associated costs as there will be fewer mistakes, fewer delays and a better use of time. This also improves the firm's profits.

"The results have shown that the firm although profitable is guilty of wasting resources."

There is greater job satisfaction as empowerment, intrapreneurship and participatory decision-making are encouraged. Employees are faced with greater challenges and labour turnover is usually reduced.

"The employees have no real targets to aim at and there are no incentives to improve."

The firm will minimize waste and costs and will allow quality to permeate the entire firm and at the same time it will develop a customer-orientated approach.

It is expected that a zero defects approach will help to improve efficiency.

B. The main differences are:

Equity is supplied by the owner of the firm, whereas Debt comes from people who are outside the firm.

Equity consists of Issued Ordinary Shares and Retained Earnings (ploughed back profits), whereas Debt consists of long-term loans.

“The initial funding consisted of his own savings of €100,000 together with €25,000 each from his two brothers who also hold seats on the board of directors.”

The providers of the Equity for expansion would have a vote and could take part in decision making whereas providers of Debt have no say in running the expanded business.

“They felt that this method would protect the decision-making process of the firm as control would not be diluted by the existence of new shareholders with voting rights.”

The providers of Equity may or may not receive a dividend, depending on profitability but outsiders must receive interest.

Expansion using Equity does not require collateral but expansion by debt will require collateral, usually deeds to the premises.

“They feel that the collateral requirement of funding by debt poses a threat from external creditors”

Expansion by Debt carries greater risk than the equity option as if the expanded business defaults on the loan (which is repayable) on a specific debt, the company may be closed down whereas equity has no specific repayment date.

However, we are told that

“They are of the opinion that with cost savings on one hand and a higher quality product and the possibility of a lucrative contract with the new firm on the other that servicing the debt will not be a problem”

In Summary Gerry wishes to remain in control of the decision-making process and feels that the firm can afford to service the debt then Debt may suit the expansion.

C. The main reasons are

Tax concessions

Ireland has offered a 12.5% Corporation tax on company profits for several years.

The UK are charging 19%. The EU standard rate is now 12.5%.

Firms are attracted by cheaper taxes.

“A favourable tax system” is mentioned in the text

Access to the European Union

Non-EU Transnational companies choose Ireland as a location to give them access to a single European market. There are 1050 Transnationals in Ireland. The American

firm would be attracted by the freedom of movement of goods aspect of the European union.

“Access to the European Union and single market are just some of the reasons put forward by the official as to why the area was chosen”

Well-educated workforce

The Irish labour force has the necessary hi-tech skills to give us a competitive advantage in chemicals, medicines, and computer software etc. Ireland has been ranked 4th in a world survey on meeting the needs of a competitive economy through education.

It would be easier to introduce more advanced methods of production.

Ireland's education and training system also enhances the country as a location.

English speaking nation.

Ireland is the only English-speaking nation in the “Eurozone” which reduces costs for Transnational companies as English is the world's number one Business language.

Ireland is also considered to be a pro-business environment.

It is also the only English-speaking member of the eurozone.

Grants and financial investment

The Irish government has offered lucrative grants and now also takes an ownership stake. The IDA Ireland is the agency, which offers the financial incentives. There are grants available for foreign firms that locate their Research & Development facilities in Ireland.

“Government investment” is also an attraction even though the government prefer an equity share as opposed to giving out grants.

WRAPIDO LTD

Seamus Foley has recently set up his café and deli counter close to the International Financial Services Centre in Dublin city center. He had previously worked as Head chef in the catering department for one of the country's leading banks and noticed the phenomenal demand for healthy eating and an overall shift away from the traditional tasty but fatty foods. He quickly developed his “Wrapido” brand which describes both the core ingredient and the notion of speed of service for the overworked financial services worker. The healthy “Wrap” is quickly replacing the “heavier” rolls and baguettes. The unique selling point focuses on healthy ingredients prepared to order for the discerning customer.

This niche market attracts a customer who does not mind paying extra for the added health benefits (€7 per wrap) and the target market is definitely not the mass produced “Breakfast roll” market. Health factors and superior quality are the order of the day. The initial advertising spend has centered on the free morning papers aimed at the thousands of commuters that flock to the area each day. This has been backed up by the regular distribution of flyers in the area. Busy commuters can also

order and pay online using the “WRapp” developed by Seamus to suit the ever-evolving market.

Six months down the line Seamus is aware that he has a profitable venture up and running but is struggling to balance his cash inflows and outflows on a daily basis. The Acid test ratio is showing at .7:1 whereas Net Margin is a healthy 25%. Further analysis has shown that the business is carrying too much stock of raw materials, and this is tying up cash. Seamus has no credit control policy in place to collect the outstanding monies from corporate clients that buy in bulk but settling patterns tend to be erratic and invoices due are substantial. The overall liquidity position needs to be overhauled.

Seamus is very aware of the significant impact that the business has on its stakeholders and is anxious to do the right thing by them. He looks for feedback from customers at every opportunity and even welcomes criticisms as a useful means of constant improvement. Employees are paid 1.5 times the minimum wage as Seamus sees their satisfaction as the only lasting means of business success. He carefully sources his suppliers and settles his bills promptly even to the detriment of his own cash position

He is anxious to forge links with the local community and personally takes part in and co-sponsors a “Meals on Wheels” run every Friday morning. His expertise is proving to be invaluable.

- (A) Analyse the components of the “Marketing Mix” of the Wrapido. Refer to the text to support your answer. (30)
- (B) Analyse the firm’s liquidity position and offer suggestions based on your findings. (25)
- (C) Outline how the business is dealing with social responsibility and its stakeholders. Refer to the text to support your answer. (25)

Product

The product Wrapido is aimed at the ever-growing number of health-conscious people who like their food to taste without piling on the pounds at the same time. It satisfies the needs and wants of the healthy eater. The product life cycle is at the growth stage and the brand name is well known locally. Packaging and design are also essential parts of the Product Mix.

“And noticed the phenomenal demand for healthy eating and an overall shift away from the traditional tasty but fatty foods”

Price

The price was set at a standard €7 per wrap with no limit on fillings.

A premium pricing strategy reflects the superior quality and health benefits of the product.

This was in line with market rival O'Brien's and also considers the fact that "green" consumers are prepared to pay more for the health benefits. It takes its own profit margin into account. The firm would take competitors' prices into account also.

"This niche market attracts a customer who does not mind paying extra for the added health benefits and the target market is definitely not the mass produced "Breakfast roll" market"

Place

As the product is perishable and targeting a local market it makes more sense to sell through its retail outlet which is close to the busy offices. The Manufacturer to customer channel is the most suitable. Customers can now order and pay using the WRapp. A modern channel of distribution that exploits new technology is important.

"The thousands of commuters that flock to the area each day"

"Busy commuters can also order and pay online using the "WRapp" developed by Seamus to suit the ever-evolving market."

Promotion

The notion of highlighting the existence of the business with a view to increasing sales is being handled efficiently as it is focussing the spend on a specific target market and is communicating directly with the relevant customers.

The firm must focus on Advertising, Sales Promotion, Public relations and sponsorship and Personal selling.

"The initial advertising spend has centred on the free morning papers aimed at the thousands of commuters that flock to the area each day. This has been backed up by the regular distribution of flyers in the area"

"He is anxious to forge links with the local community and personally takes part in and co-sponsors a "Meals on Wheels" run every Friday morning. His expertise is proving to be invaluable."

B. The firm is profitable but there is a cash flow problem as the acid test ratio is only .7:1. This means that for every € that falls due in the short term this firm only has 70 c to meet it. The ideal situation is that the firm has a ratio of 1:1. Most firms have cash flow problems due to poor working capital management

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

It 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.

“Further analysis has shown that the business is carrying too much stock of raw materials, and this is tying up cash. Seamus has no credit control policy in place to collect the outstanding monies from corporate clients that buy in bulk but settling patterns tend to be erratic.”

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.

The fact that the business is profitable with a net margin of 25% tells us that the revenues that the firm SHOULD receive the expenditure that the firm SHOULD pay

C. Business has social responsibilities to the following:

Investors

- To act in accordance with its Memorandum and Articles of Association
- Provide a fair return on the investment by shareholders.
- Avoid excessive payments to senior management.
- To present a true and fair view of the financial performance and standing of the business and maintain a proper set of accounts.

“Six months down the line Seamus is aware that he has a profitable venture up and running, but is struggling to balance his cash inflows and outflows on a daily basis”

Employees

- Adhere to Employment Law, Health and Safety Regulations etc.
- Pay a fair wage to all employees.
- Provide a safe working environment.
- Treat employees with dignity and respect/no discrimination.

Provide equal opportunities for promotion, pay etc. to all employees

“Employees are paid 1.5 times the minimum wage as Seamus sees their satisfaction as the only lasting means of business success.”

Customers

- Fair and honest advertising of its product
- Abide by health and safety regulations; products must be safe.
- Goods must be of merchantable quality, match their description, fit for purpose etc.
- Uphold the right of the customer to complain and to investigate such complaints.
- Good after-sales service
- Charge a fair price.

“He looks for feedback from customers at every opportunity and even welcomes criticisms as a useful means of constant improvement.”

Society

- To be environmentally conscious; to implement environmentally friendly business practices.
- Co-operate with government offices e.g. EPA.
- Openness and transparency
- Recyclable packaging, clean manufacturing, sustainable development

“He is anxious to forge links with the local community and personally takes part in and co-sponsors a “Meals on Wheels” run every Friday morning. His expertise is proving to be invaluable.”

The Bagel Booth

In 2001 Jim and Mary set up a business making bagels for the Irish market. They were armed with endless enthusiasm, moderate savings and a sheer love for the product which they wished to share with discerning and emerging food lovers. They brought New York bagels made from an authentic recipe to Ireland. They recognized the growth of “Green markets” in Ireland and consequently the product has no additives or preservatives and is made from natural ingredients with no adverse effects on cholesterol levels. They will admit that the product is not pitched at the cheap end of the market and feel that the product appeals to those looking for an authentic bagel without the health risks. The Bagel Booth has targeted the multiple stores as the products are sold in batches of 6 and this method shifts more units. The product is promoted by advertising through specialists “outside” firms who decorate billboards, buses etc.

However, the lack of experience of business matters is now showing as “cracks” are appearing in the business. The firm has cash flow problems and is either understocked or overstocked. It is finding it difficult to collect money from its customers and rising overheads are draining the cash resources. The cash flow position is limiting the firm’s ability to conduct business. Despite these problems the business remains profitable and demand for the product is rising.

The firm also wishes to expand the business from 5 to 9 full time staff and is applying to the appropriate state agencies for the relevant assistance. They need advice in relation to the expansion and help towards the cost of a feasibility study. They have heard that the community development route might suit best

- A. Analyse the Marketing Mix of the above firm. Refer to the above text in your answer (30 marks)
- B. Outline the importance of Cash Flow Forecasting for the above firm. Refer to the above text in your answer (25 marks)
- C. Describe how the services provided by one Community Development Organisation could help the firm. Refer to the above text in your answer (25 marks)

A. Product:

The Bagel is aimed at the ever-growing number of health-conscious people who like their food without the health risks. The product aims at the “discerning” consumer and the unique feature is the authentic recipe. The product is aimed at the “green” market and satisfies exact customer requirements.

“The product has no additives or preservatives and is made from natural ingredients with no adverse effects on cholesterol levels.”

Price:

The price is not cheap as the product is catering for a niche market and also takes into account the fact that “green” consumers are prepared to pay more for the health benefits. It would take its own profit margin into account.

“They will admit that the product is not pitched at the cheap end of the market”

Place

As the product is in multi-pack format the firm concentrated on the manufacturer direct to retailer channel.

In this case the main retailers are the multiples as this is where maximum sales of multi-pack products can be achieved.

“The Bagel Booth has targeted the multiple stores as the products are sold in batches of 6 and this method shifts more units”

Promotion

The firm also highlight its existence to a wide audience by advertising using outdoors media. This informs the consumer and promotes brand awareness

“The product is promoted by advertising through specialists “outside” firms who decorate billboards, buses etc.

Evaluation:

Overall, the marketing mix chosen allowed the product to make an impact on the “healthy” Bagel market and match competitors in this area, and to take advantage of the growth in green marketing.

4 x (2+2+3) and 2 for the evaluation.

(B) Cash flow forecasts

Cash flow show the difference between money flowing in and money flowing out of a business or household.

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

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.

“The cash flow position is limiting the firm’s ability to conduct business.”

To help to predict start up cash requirements for business. It shows signs of good management and will impress a bank manager.

This firm would have had a better idea of its start up costs

Comparing the results with projections acts as a useful means of financial control. This would as a check or control for the owners

It acts as a financial guideline for the forthcoming year and is a useful yardstick when keeping liquidity on track.

“Despite these problems the business remains profitable and demand for the product is rising”

4 x 3 for the points and 3 + 3 + 3 + 4 for relating to the text

(C) The Local Enterprise Office provides

Support and advice

The LEO provides a full information and advice service to expanding and potential entrepreneurs on all aspects of setting up and running a business

This firm needs advice on managing cash-flow

“soft” loans

–the LEO provide loans to suitable projects and interest is below commercial rates.

This reduces the financial pressure on the start up firm.

Feasibility grants

It is used to assess the viability of a project including R&D prototype development and finding out if the project can be brought to production stage. This helps with product development

Training and development assistance

The LEOs recognise the need for training and development in order to enhance potential and survival capacity

This prepares the staff for the challenges that lie ahead

5 points at 2 marks and 3 marks each for relating to the text.