 BUSINESS MANAGEMENT UNIT 1

Business Management Unit 1 practice exam 2018 and suggested answers

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The following practice exam covers the three areas of study in VCE Business Management Unit 1.

The practice exam consists of three sections (A, B and C) that correspond to the three areas of study in Unit 1 (1, 2 and 3). Each section has a case study with structured questions.

The exam is presented in the form of a question and answer book. All questions are compulsory and the total marks available are 75.

The number of lines provided after each question and the number of marks allocated to each question indicate the appropriate length of a response.

Additional space is provided at the end of the question and answer book.

The practice exam and suggested answers are based on the author's interpretation of the *VCE Business Management Study Design* (2017–2021) and have no official status.

Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Teacher: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

BUSINESS MANAGEMENT UNIT 1

**Practice written examination 2018**

**Reading time: 15 minutes**

**Writing time: 2 hours**

**Question and answer book**

**Structure of book**

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| *Number of questions* | *Number of questions to be answered* | *Number of marks* |
| Section A – 7Section B – 5Section C - 7 | 757 | 252525**Total 75** |

* Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers.
* Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white-out liquid/tape.
* No calculator is allowed in this examination.

**Materials supplied**

* Question and answer book.
* Additional space is available at the end of the book if you need extra paper to complete an answer. Clearly label all answers with the appropriate section and question number.

**Instructions**

* Write your name and your teacher’s name in the spaces provided above on this page.
* All written responses must be in English.

**Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.**

SECTION A: ‘The business idea’

Instructions

Read the following case study and answer **all** questions in the spaces provided.

**DYSKIN GUITARS**

The RalBar™ is an easy-to-play electric guitar developed and produced by a small business called Dyskin Guitars. The RalBar™ consists of three strings and a specifically designed fretboard, and it takes minutes to learn to play the chords for hundreds of songs with just one finger. Dyskin Guitars’ target market is people who would like to play guitar but do not have the time or feel they cannot learn to play a conventional guitar.

The RalBar™ was designed by Brian Dyskin who combined his delicate manual skills as a dentist with his passion for luthiery (making stringed instruments). He had many ideas for different guitar designs but in 2010, following his attendance at the Melbourne Guitar Show, an idea came to him after trying to play a stick dulcimer (a supposedly easy instrument to play) and having difficulty navigating the fretboard. This gave him the inspiration to develop a new type of guitar that was more versatile and easy to play. After experimenting with many prototypes, Brian developed the RalBar™ and received an international patent for the unique fret layout.

In an attempt to find investors to enable him to develop this innovative instrument, Brian appeared on the TV show *Shark Tank* in 2015. While none of the *Shark Tank* entrepreneurs chose to invest in the business, the show generated interest in the RalBar™ and people contacted Brian via his website, which resulted in numerous orders. The guitars are produced overseas and shipped to Australia.

References

*Meet the man behind the revolutionary RalBar guitar*, Mixdown, 13 May 2016, <http://www.mixdownmag.com.au/meet-man-behind-revolutionary-ralbar-guitar>

‘Guitar man’, *Bite Magazine*, 9 September 2015, <https://bitemagazine.com.au/guitar-man/>

Dyskin Guitars: <http://store.dyskinguitars.com/>

Questions

Question 1 (4 marks)

Describe **two** sources of business opportunity that enabled Brian Dyskin to establish his business.

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Question 2 (2 marks)

Outline **two** possible personal motivations behind Brian’s desire to design the RalBar™ and establish Dyskin Guitars.

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Question 3 (6 marks)

Brian is a business entrepreneur. Identify **two** characteristics of business entrepreneurs and explain how each characteristic would contribute to the success of Dyskin Guitars.

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Question 4 (3 marks)

Using an example, explain why it is important for Brian Dyskin to set goals for his business.

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Question 5 (3 marks)

Analyse the relationship between business opportunities and business concept development.

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Question 6 (5 marks)

**a.** Explain the purpose of a feasibility study. 2 marks

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**b.** Explain how a feasibility study would be beneficial in the planning stage of Dyskin Guitars.

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Question 7 (2 marks)

Explain **one** way a business such as Dyskin Guitars contributes to the Australian economy.

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SECTION b: ‘external environment’

Instructions

Read the following case study and answer **all** questions in the spaces provided.

**BUZINGA**

Buzinga is a mobile phone app development company based in Melbourne. The company was founded in 2012 and employs around 60 staff globally. It became Australia’s leading user engagement-focused app development agency. Buzinga specialises in designing and executing mobile experiences for businesses with large customer bases that are looking to create a presence in their competitive markets.

Buzinga has worked with over 300 businesses from all over Australia and in five different countries to create new revenue streams and find new customers and markets.

Apps that Buzinga has developed include Brauz—an omni-channel retail experience allowing users to shop from over 500 retailers—and Foodswitch, which uses leading scientific information and technology to deliver immediate, easy-to-understand nutritional information that encourages users to switch to healthier food options.

The business has won numerous business awards and is recognised as one of the top app development companies.

In 2017 the business went into liquidation after it expanded and could not sustain its operational costs. It was acquired by the Butterfly Group.

References

Buzinga: <http://www.buzinga.com.au/>

Buzinga Facebook page: <https://www.facebook.com/pg/BuzingaApps/about/>

*Buzinga Foodswitch,* mobile app case study,Buzinga; <http://www.buzinga.com.au/foodswitch-app-case-study/>

Buzinga Brauz, mobile app case study, Buzinga; <http://www.buzinga.com.au/brauz-mobile-app-case-study/>

Brauz: <https://brauz.com/business/>

Foodswitch: <https://www.foodswitch.com.au/#/home>

*App developer Buzinga winding up: liquidator says it couldn’t sustain rapid growth expenses*, Dynamic Business, 11 July 2017, <http://www.dynamicbusiness.com.au/featured/app-developer-buzinga-winding-up-liquidator-says-it-couldnt-sustain-rapid-growth-expenses.html>

Questions

Question 1 (3 marks)

Distinguish between the macro, operating and internal environments in which businesses operate.

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Question 2 (8 marks)

**a.** Identify **one** technological issue and **one** global issue and explain how each issue would affect business planning at Buzinga. 4 marks

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**b.** Economic conditions such as interest rates, tax rates, business confidence and consumer confidence affect business planning

Explain how **two** economic conditions might affect business planning at Buzinga. 4 marks

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Question 3 (2 marks)

Outline **two** legal or government regulations that Buzinga would have to comply with in the planning stage of the business.

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Question 4 (8 marks)

**a.** Define the term ‘corporate social responsibility’. 1 mark

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**b.** Outline **one** corporate social responsibility issue that Buzinga could face when operating the business and explain how the company could manage the issue. 3 marks

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**c.** Using an example, describe **one** benefit and **one** cost of introducing corporate social responsibility management practices during the planning stage of Buzinga. 4 marks

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Question 5 (4 marks)

Identify and explain **two** operating environment factors that would affect business planning at Buzinga.

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SECTION c: ‘internal environment’

Instructions

Read the following case study and answer **all** questions in the spaces provided.

**AVENUE BOOKSTORE**

**Avenue Bookstore, which is owned by Chris Redfern and is one of Australia’s award-winning bookshops, was opened in 1986 in the heart of Albert Park village. Redfern regards the business as a book haven, a favourite meeting place and a destination for book lovers across Melbourne and beyond.**

**There are also stores in Elsternwick and Richmond that carry an extensive and personally curated range of local and imported books with a strong focus on the best new releases and backlist titles in all categories.**

**Avenue Bookstore prides itself on a high level of customer service and knowledgeable staff.**

**Redfern believes that despite the threat of e-books and online suppliers such as Amazon and the post-Borders world, ‘there is a great opportunity for good bookstores to thrive’ and going to a local bookshop ‘is a cultural experience, a curated experience’. He says that customers choose books and Avenue Bookstore employees talk to them about their selections or assist them in choosing books.**

**References**

Avenue Bookstore: <https://avenuebookstore.com.au/pages/480-About>

‘The resurgence of Melbourne booksellers despite the digital revolution, *The Age*, 15 September 2016: <https://www.theage.com.au/national/victoria/the-resurgence-of-melbourne-booksellers-despite-the-digital-revolution-20160915-grh6hf.html>

Question 1 (2 marks)

Identify and describe a business model that would be suitable for the Avenue Bookstore.

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Question 2 (4 marks)

**a.** Identify and describe an appropriate legal business structure for the Avenue Bookstore.

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**b.** Explain **one** advantage and **one** disadvantage of the legal business structure you described in your answer to **part a.** 2 marks

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Question 3 (3 marks)

Identify the **three** main types of resources Avenue Bookstore needs in order to operate.

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Question 4 (6 marks)

Avenue Bookstore has three stores in different suburbs in Melbourne: Albert Park, Elsternwick and Richmond.

**a.** Identify **two** factors affecting the location of a business. 2 marks

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**b.** Analyse how the factors you identified in your answer to **part a.** might have influenced Chris Redfern when choosing the location of his stores. 4 marks

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Question 5 (2 marks)

Outline **two** sources of finance that Chris Redfern could have used to finance Avenue Bookstore.

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Question 6 (4 marks)

Describe how Avenue Bookstore could use a SWOT analysis to assist with its business planning.

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Question 7 (4 marks)

Prior to the establishment of any business, the owners should develop a business plan.

Describe **two** benefits for Avenue Bookshop of using a business plan.

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Suggested answers

***Note:*** *The answers below are suggestions only. For some questions, more than one answer is possible. Alternative answers are provided for some questions.*

SECTION A: ‘THE BUSINESS IDEA’

Question 1 (4 marks)

**Describe *two* sources of business opportunity that enabled Brian Dyskin to establish his business.**

One source of business opportunity that enabled Brian to establish his business is innovation. Innovation refers to changing a product (good or service) or process into a more effective one based on a new idea or creating a new and original product or process to create added value for a business and its customers. Brian modified a traditional guitar to create a unique product—an electric guitar with three strings that takes minutes to learn to play—for his target market: novice musicians who want to learn to play guitar quickly.

A second source of business opportunity is entrepreneurship. This is the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit. Brian has the characteristics of an entrepreneur as he had the vision to design and make a new type of guitar based on a great deal of experimentation, and take on the financial risks of establishing his business.

*Other sources of business opportunity:*

* market opportunities
* changing customer needs
* research and development

*Marking guide:*

***1 mark*** *for describing each business opportunity*

***1 mark*** *for stating how each business opportunity would have enabled Brian Dyskin to establish his business*

Question 2 (2 marks)

**Outline *two* possible personal motivations behind Brian’s desire to design the RalBar™ and establish Dyskin Guitars.**

One possible personal motivation behind Brian’s desire to design the RalBar™ was to fulfil a market need, that is, to fill a gap in the market. He realised that there was a market for a modified guitar that was easy to learn and play, which inspired him to establish the business.

Another possible motivation was to make a profit, which is a monetary reward for the effort put into operating a business. Profit is what is left over after expenses are deducted from revenue.

*Other motivations:*

* self-fulfilment
* the desire for independence and to be one’s own boss
* financial independence or additional income

*Marking guide:*

***1 mark*** *for outlining each motivation and linking it to the case study (x two = 2 marks)*

Question 3 (6 marks)

**Brian is a business entrepreneur. Identify *two* characteristics of business entrepreneurs and explain how each characteristic would contribute to the success of Dyskin Guitars.**

A business entrepreneur is a person who is willing to seize opportunities to start and operate a business and is prepared to take financial and other risks in the hope of making a profit.

One characteristic of business entrepreneurs is being an innovative thinker. Successful business owners are able to come up with new ideas and continually improve on them. In the case of Dyskin Guitars, Brian Dyskin was able to build a business based on an entirely unique product. Being an innovative thinker would help him to differentiate his business from that of his competitors and create a niche market.

Another characteristic is initiative. This characteristic enables a business entrepreneur to be proactive and take the initial steps to start a business without the prompting of others. Brian demonstrated initiative by designing a prototype for the RalBar™ and applying for a patent. Without initiative, a business cannot be established and therefore be successful.

*Other characteristics:*

* Self-motivated and self-directed
* Prepared to take risks
* Creative
* Able to solve problems
* Hardworking and self-disciplined

*Marking guide:*

***1 mark*** *for identifying each characteristic of a business entrepreneur (x two = 2 marks)*

***1 mark*** *for explaining how each characteristic contributes to business success (x two = 2 marks)*

***1 mark*** *for applying each characteristic to Dyskin Guitars (x two = 2 marks)*

Question 4 (3 marks)

**Using an example, explain why it is important for Brian Dyskin to set goals for his business.**

A goal is what a business expects to achieve over a period of time. Setting business goals is vital for providing direction for business owners because without a specific purpose the business has nothing to aspire to. One goal Brian might have is to make a profit, whereby the owner keeps the surplus after expenses have been deducted from sales revenue. Having this goal will help provide direction for the business as all activities such as sales and production will be conducted with the goal of making a profit in mind.

*Other possible goals:*

* building brand awareness
* building a customer base

*Marking guide:*

***1 mark*** *for explaining what a goal is*

***1 mark*** *for explaining the importance of goal setting*

***1 mark*** *for using an example related to Dyskin Guitars*

Question 5 (3 marks)

**Analyse the relationship between business opportunities and business concept development.**

A business opportunity is a set of circumstances that presents itself as an avenue for success, such as innovation, technological developments and market opportunities. Business concept development refers to a multi-stage process whereby the idea for the business takes shape through preparing a detailed description of the product including technical aspects, conducting market research to determine if there is a market for the product idea and preparing a feasibility study to see if the idea is viable. The two are related in that business concept development takes place after the owner has assessed possible business opportunities. For example, Brian Dyskin identified a market opportunity for a modified guitar for beginners, after which he would have conducted market research to see if similar products were available on the market and then prepared a prototype of the RalBar™.

*Marking guide:*

***1 mark*** *for explaining what business opportunity means*

***1 mark*** *for explaining what business concept development means*

***1 mark*** *for analysing the relationship between business opportunity and concept development*

Question 6 (5 marks)

**a. Explain the purpose of a feasibility study. 2 marks**

A feasibility study is the initial research that is required to determine whether a business concept has the potential for success. It looks at the legal, financial, technical and operational viability of a business idea, and might include an assessment of the potential market and projected sales forecasts. It should be done prior to developing a business concept further. Its main purpose is to determine if a business concept is workable, that is, whether it is technically feasible as well as financially viable.

 *Marking guide:*

***1 mark*** *for explaining the meaning of a feasibility study*

***1 mark*** *for explaining its purpose*

**b. Explain how a feasibility study would be beneficial in the planning stage of Dyskin Guitars. 3 marks**

Planning is a process of establishing goals and the strategies to achieve them. During the initial planning stage of Dyskin Guitars various goals would have been established such as making a profit and increasing brand awareness. A feasibility study is important as it indicates whether or not a business is worth establishing. For example, had the initial research and analysis found that the cost of producing the RalBar™ would outweigh the projected sales revenue, the business would have been deemed unviable and the concept would have been abandoned or modified. Hence, undertaking a feasibility study helps to prevent costly investments in non-existent markets or in projects that are not workable.

*Marking guide:*

***1 mark*** *for explaining the planning stage of a business*

***1 mark*** *for explaining how a feasibility study benefits business planning*

***1 mark*** *for linking these concepts to Dyskin Guitars*

Question 7 (2 marks)

**Explain *one* way a business such as Dyskin Guitars contributes to the Australian economy.**

One way that Dyskin Guitars contributes to the Australian economy is through generating taxation revenue. Income earned by the business is taxed by the government. The revenue raised by the government is used to provide goods and services that the community needs, such as public schools and roads.

*Other contributions:*

* creates employment
* increases economic activity and hence economic growth
* generates export earnings
* invests in research and development
* improves Australia’s innovative capacity

*Marking guide:*

***1 mark*** *for identifying a contribution to the economy*

***1 mark*** *for explaining the contribution*

SECTION b: ‘external environment’

Question 1 (3 marks)

**Distinguish between the macro, operating and internal environments in which businesses operate.**

The internal environment of a business refers to the factors over which a business has control, for example employees. The operating environment, on the other hand, is part of the external environment and includes factors outside the business with which it interacts but has little to no control over, such as customers and competitors. The macro environment is also part of the external environment, but differs from the internal and operating environments in that it is made up of broad conditions and trends in the economy and society over which the business has no control, for example government regulations and economic conditions such as tax rates and consumer confidence levels.

*Marking guide:*

***1 mark*** *for explaining one of the terms*

***1 mark*** *for showing the difference between that term and one of the others*

***1 mark*** *for showing the difference between those two terms and the third term*

Question 2 (8 marks)

**a. Identify *one* technological issue and *one* global issue and explain how each issue would affect business planning at Buzinga. 4 marks**

One technological issue that would affect business planning at Buzinga is developments in technology in relation to products and business administration. Technology is rapidly changing and a technology business like Buzinga that sells mobile phone apps must keep up-to-date with new developments in technology in order to improve its apps and develop new ones and hence remain competitive. In addition, up-to-date technology is needed for business planning so that data about sales at Buzinga can be gathered and processed in order to monitor business performance and make decisions about what and how much to produce. It is also needed to manage customer orders efficiently and effectively, for financial management, to have a website that allows for effective customer interaction, and for marketing applications such as social networking tools.

Another global issue that affects business planning is patenting new inventions such as mobile phone apps, providing they have features that are unique. Patents help to ensure that new ideas and inventions are not copied by other businesses. Patenting should be done at the outset of developing new technology such as a mobile phone app. Patenting Buzinga’s mobile phone apps would be extremely important in ensuring the success of its apps and thereby safeguarding the viability of the business, as the mobile phone app industry is highly competitive. Doing so would help to ensure the success of Buzinga’s mobile apps and the business itself.

*Other issues:*

* other technological issues such as how the market could change
* other global issues such as such as overseas competitors, overseas markets, offshoring labour, exchange rates, trademarks and online sales

*Marking guide:*

***1 mark*** *for identifying and explaining each issue (x two = 2 marks)*

***1 mark*** *for explaining how each issue would affect business planning at Buzinga (x two = 2 marks)*

**b. Economic conditions such as interest rates, tax rates, business confidence and consumer confidence affect business planning.**

**Explain how *two* economic conditions could affect business planning at Buzinga.**

 **4 marks**

One economic condition that could affect business planning at Buzinga is interest rates. Interest rates refer to the cost of borrowing money in terms of the extra amount that needs to be repaid in addition to the principal of a loan. Businesses sometimes have to borrow money in order to make investments and expand. If interest rates increase, Buzinga will be less likely to borrow money, as the amount to be paid back will increase. As a result, it might not be able to achieve the objectives they originally planned and will have to undertake different activities.

Another economic condition is business confidence. Business confidence is an economic indicator that measures the level of optimism or pessimism that business managers feel about the prospects of their companies and the state of the economy. When business confidence is high business managers feel positive about the prospects of their business and the state of the economy, and are generally more willing to increase their investment spending. This might affect Buzinga’s planning as the company might be more willing to take risks, such as expanding production, if business confidence is high.

*Marking guide:*

***1 mark*** *for explaining each economic condition (x two = 2 marks)*

***1 mark*** *for**explaining how each economic condition would affect business planning at Buzinga (x two = 2 marks)*

Question 3 (2 marks)

**Outline *two* legal or government regulations that Buzinga would have to comply with in the planning stage of the business.**

From the outset of the business, one legal regulation that Buzinga would have to comply with is anti-discrimination laws. Under the *Equal Opportunity Act 2010* (Vic.) it would be unlawful for Buzinga to discriminate against an employee on the basis of age, marital status, disability, gender or religious belief.

Another regulation that Buzinga would have to comply with is Australian taxation laws. Buzinga would have to pay income tax on money it earns, and if registered for the goods and services tax (GST), it would need to report this on a business activity statement (BAS). Each year the company would also need to lodge a tax return.

*Other legal or government regulations:*

* occupational health and safety laws
* licences and permits
* environmental protection legislation

*Marking guide:*

***1 mark*** *for outlining each legal or government regulation (x two = 2 marks)*

Question 4 (8 marks)

**a. Define the term ‘corporate social responsibility’. 1 mark**

Corporate social responsibility refers to the obligations a business has over and above its legal responsibilities for the wellbeing of employees and customers, shareholders and the community as well as the environment.

**b. Outline *one* corporate social responsibility issue that Buzinga could face when operating its business and explain how the company could manage the issue.**

 **3 marks**

One corporate social responsibility issue Buzinga could face when operating the business is the environmental impact of its operations. All businesses have a responsibility to manage the impact of their operations on the environment. The impact of a business’s operations on the environment typically includes the use of non-renewable natural resources such as water and fossil fuels to generate electricity and oil or diesel to transport employees between locations, the production and disposal of waste, and the use of office supplies such as paper.

Buzinga could establish an environmental management plan that includes using technologies that reduce the company’s reliance on natural resources, such as installing solar energy, purchasing office and other supplies made from recycled materials, and holding conference calls to reduce interstate and overseas air travel by its employees.

*Marking guide:*

***1 mark*** *for outlining a corporate social responsibility issue*

***1 mark*** *for linking the issue to Buzinga*

***1 mark*** *for explaining how Buzinga could manage the issue*

**c. Using an example, describe *one* benefit and *one* cost of introducing corporate social responsibility management practices during the planning stage of Buzinga.**

 **4 marks**

One benefit of introducing corporate social responsibility management practices is improved business performance through increased sales. Customers want to purchase goods and services from businesses that demonstrate social corporate responsibility. Some companies are willing to pay more for products from socially responsible companies. For example, if Buzinga implements environmentally friendly energy conservation initiatives, such as solar energy, to reduce energy consumption in its operations, and made its customers aware of this, the company’s customers might be more inclined to purchase from Buzinga rather than from businesses that do not implement such initiatives.

One cost of incorporating socially responsible management practices is the initial financial cost involved. Installing environmentally friendly energy conservation systems at Buzinga, such as solar energy, might be costly for the business and divert finances from revenue-producing activities, particularly during the early stages of the business, but in the long-term it will be benefit both the business and society as a whole.

*Other examples:*

* Other environmental considerations, such as reducing resource use, increasing the use of recycled materials, and purchasing from sustainable suppliers
* planning production that is in society’s bests interests, such as mobile phone apps that help people to recycle waste effectively

 *Other benefits:*

* improved reputation and image
* increased employee motivation and engagement (as employees want to work for a socially responsible employer)
* improved ability to retain and attract the best employees

 *Other costs:*

* time-consuming
* opportunity costs of not being able to invest in profit-making activities due to capital being directed at a corporate social responsibility (CSR) activity, which might result in lost revenue
* recurrent costs of maintaining the CSR activity, such as wages and management time

*Marking guide:*

***2 marks*** *for describing a benefit of a management practice with an example*

***2 marks*** *for describing a cost of a management practice with an example*

Question 5 (4 marks)

**Identify and explain *two* operating environment factors that would affect business planning at Buzinga.**

One factor from the operating environment that would affect business planning at Buzinga is competitors’ behaviour. Competitors are other businesses that offer goods or services that compete with the ones offered by Buzinga. Buzinga’s competitors are other software companies that design mobile apps for businesses. Buzinga would have to monitor their competitors and be aware of the type of products they are producing and the clients they are servicing. Buzinga would also need to be aware of any new competitors entering the app design market.

Another factor from the operating environment is customer needs and expectations. Customers are the people who purchase a business’s goods or services. Buzinga’s customers are other businesses looking to have apps created to help them sell their products and engage their customers. During the planning stage Buzinga would need to be aware of the varying needs and expectations of their customers and ensure that their services are meeting their customers’ requirements.

*Other operating environment factors:*

* suppliers and the supply chains, such as resources required by a business, where resources are sourced and how they reach the business
* special interest groups, such as environmental lobby groups, business associations and unions

*Marking guide:*

***1 mark*** *for identifying and explaining an operating environment factor (x two = 2 marks)*

***1 mark*** *for explaining how it affects business planning at Buzinga (x two = 2 marks)*

SECTION c: ‘internal environment’

Question 1 (2 marks)

**Identify and describe a business model that would be suitable for the Avenue Bookstore.**

One suitable business model for the Avenue Bookstore is the bricks-and-mortar model. This refers to businesses that have a physical location such as a store in a shopping centre or a shopping strip. This is a suitable model for Avenue Bookstore as this business prides itself on having knowledgeable staff and regards itself as a meeting place for book lovers. The bricks-and-mortar model is suitable for Avenue Bookstore as it has a market for book buyers who want to seek in-person recommendations for books and talk about their choices, and enjoy the cultural experience of visiting a quality bookshop.

*Other suitable business models:*

* online business
* franchise
* bricks-and-clicks business

*Marking guide:*

***1 mark*** *for identifying and describing a business model*

***1 mark*** *for explaining why the business model would be suitable for the Avenue Bookstore*

Question 2 (4 marks)

**a. Identify and describe an appropriate legal business structure for the Avenue Bookstore. 2 marks**

An appropriate legal business structure for the Avenue Bookstore is a proprietary (private) company. This structure suits small to medium-sized businesses. A private company is a legal entity that is separate from its owners and has between two and 50 shareholders. A private company is not listed on the stock exchange and has ‘Pty Ltd’ after its name.

 *Other appropriate business structures:*

* sole trader
* partnership
* social enterprise

*Marking guide:*

***1 mark*** *for identifying an appropriate legal business structure*

***1 mark*** *for describing the structure*

**b. Explain *one* advantage and *one* disadvantage of the legal business structure you described in your answer to *part a.* 2 marks**

One advantage of a proprietary (private) company is that is has limited liability as it is a separate legal entity. This means that the owners are not personally liable for any debts the company incurs.

One disadvantage of a proprietary (private) company structure is that it is more costly to form than a sole trader business or a partnership as a business wanting to register as a private company must go through the process of incorporation.

 *Marking guide:*

***1 mark*** *for explaining one advantage*

***1 mark*** *for explaining one disadvantage*

***Note:*** *Advantages and disadvantages must relate to the structure identified in* **part a**.

Question 3 (3 marks)

**Identify the *three* main types of resources Avenue Bookstore needs in order to operate.**

The Avenue Bookstore needs natural resources, including the land on which the stores are built. It needs labour resources, that is, the employees who operate and manage the bookstores. The Avenue Bookstore also needs capital resources, including equipment such as computers, photocopiers and phone systems, which the business uses to provide its retail services.

*Marking guide:*

***1 mark*** *for identifying each resource (x three = 3 marks)*

Question 4 (6 marks)

**Avenue Bookstore has three stores in different suburbs in Melbourne: Albert Park, Elsternwick and Richmond.**

**a. Identify *two* factors affecting the location of a business. 2 marks**

One factor affecting the location of a business is visibility. Another factor is proximity to customers.

 *Other factors:*

* land/rental costs
* availability of labour
* style of operation, including whether the location is in keeping with the image of the business
* site accessibility
* suitability of buildings
* accessibility to transport

 *Marking guide:*

 ***1 mark***for identifying each factor (x two = 2 marks)

**b. Analyse how the factors you identified in your answer to *part a.* might have influenced Chris Redfern when choosing the location of his stores. 4 marks**

Visibility as a factor would have influenced Chris Redfern when choosing the location of his stores. A bookshop needs to be in a location where it can be easily seen by customers, such as a shopping strip where there is a lot of foot traffic. This means that the business is easy to see even if people are not necessarily looking for the bookshop, thereby encouraging casual browsing by potential customers. Locating the business in an industrial area situated among factories would be unsuitable as it would not be visible to potential customers and foot traffic would be minimal.

The other factor affecting Chris Redfern’s choice of location for his bookshops is proximity to customers. This means that the business should be located close to its target market so that customers do not have to travel great distances to shop there. The three stores, which are located in Elsternwick, Richmond and Albert Park, are close to the CBD and therefore not far from where most of the target market is likely to reside. Locating the store in a remote area would inconvenience the majority of Avenue Bookstores’ actual and potential customers who would most likely purchase books from other shops.

*Marking guide:*

***2 marks*** *for analysing each factor (x two = 4 marks)*

Question 5 (2 marks)

**Outline *two* sources of finance that Chris Redfern could have used to finance Avenue Bookstore.**

One source of finance that Chris Redfern could have used to finance Avenue Bookstore is equity. This is money that is contributed by the owner himself to establish a business.

Another source of finance is a short-term business loan. These are funds provided by a financial institution, such as a bank or building society, to finance a business but must be paid back with interest within an agreed period of time.

*Other sources of finance:*

* overdraft
* line of credit
* credit card
* equipment leasing
* trade credit

*Marking guide:*

***1 mark*** *for outlining each source of finance (x two = 2 marks)*

Question 6 (4 marks)

**Describe how Avenue Bookstore could use a SWOT analysis to assist with its business planning.**

Planning is the process of setting objectives and selecting the strategies in order to achieve them. A SWOT analysis is a tool used to assist with business planning that analyses the business’s current situation. A SWOT analysis examines the strengths, weaknesses, opportunities and threats experienced by a business. Listing Avenue Bookstore’s strengths and weakness will help the business analyse the current state of its internal environment. Strengths refer to what a business is doing well and can help give it a competitive advantage. Avenue Bookstore’s strengths include a loyal customer base, a strong business reputation and a high level of customer service. Weaknesses indicate areas in which improvement is required in order for a business to remain competitive. Weaknesses that might be identified could include an out-of-date computer system or supply chain problems.

The external environment can be assessed through analysing opportunities and threats. Opportunities represent circumstances that the business can take advantage of, such as favourable economic conditions and changing customer needs. Opportunities for Avenue Bookstore include fewer competitors due to the closure of stores like Borders and the changing needs of customers who want in-store advice on books and the cultural experience of shopping at a bricks-and-mortar bookshop. Threats refer to factors that may affect the business’s future, such as legal regulations and competitors in the market. Threats affecting Avenue Bookstore could include changes in lease conditions or an economic downturn.

Once the SWOT analysis has been used to analyse the current situation, the Avenue Bookstore can use that information to develop realistic and achievable objectives, and strategies to achieve them. The analysis will help the business understand its weaknesses and help it take advantage of identified opportunities. By identifying its strengths, Avenue Bookstore can focus on what it does well: stocking a wide range of quality books, providing customers with a cultural and curated experience, and giving them informed advice about books. A SWOT analysis might also help Avenue Bookstore to identify an untapped segment in its market or pinpoint weaknesses that could hinder the business’s growth and future success.

*Marking guide (global):*

***Note:*** *To achieve full marks students should provide a definition of a SWOT analysis, an explanation of its components, how each of the components relate to Avenue Bookstore, and how it can take advantage of the analysis to assist with its business planning.*

Question 7 (4 marks)

**Prior to the establishment of any business, the owners should develop a business plan.**

**Describe *two* benefits for Avenue Bookshop of using a business plan.**

A business plan is a written statement of goals and objectives and the strategies that need to be implemented to achieve them.

One benefit of developing and using a business plan is that it can help test the viability of a business. This means that a business owner can determine whether their business is likely to succeed. For example, when developing a financial plan as part of an overall business plan, Avenue Bookshop might determine that its operating costs would exceed potential profits and therefore the business might not be worth establishing. On the other hand, the plan might indicate that there is a strong market for a bricks-and-mortar store, thus indicating likely business success.

Another benefit of developing a business plan is that is helps a business identify its strengths and weaknesses. As part of a business plan, the owner might conduct a SWOT analysis whereby the business’s strengths, weaknesses, opportunities and threats are examined to determine the areas in which it would need to improve prior to its establishment. Alternatively, the SWOT analysis might highlight strengths that could be developed in order to achieve a competitive advantage.

*Other benefits:*

* assists the business in being proactive
* helps maintain a focus on objectives
* can help when seeking finance from banks
* demonstrates a level of commitment

*Marking guide:*

***2 marks*** *for describing each benefit (x two = 4 marks)*

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