3.4 Methods of Business Growth: Mergers, Joint Ventures and Franchising: 30-minute Pack

AQA 7132 · Calculator allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Where a calculation is required, show your working. The fictional business used in several questions is named in the first applied question and its key figures are restated in later questions so each question is self-contained.

1 Which one of the following is most likely to be a feature of a conglomerate merger?

- ☐ A) Two firms in the same industry merge to increase market share
- ☐ B) A firm merges with its supplier to secure inputs
- ☐ C) Two firms in unrelated industries merge to diversify risk
- ☐ D) A firm sells franchises to independent owners

(Total for Question 1 is 1 mark)

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2 Identify two features of a joint venture as a growth strategy between two unrelated firms.

(Total for Question 2 is 2 marks)

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3 State two reasons why a small local restaurant might choose to join a national franchise network rather than expand independently.

(Total for Question 3 is 2 marks)

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4 Luna Clothing, a mid-sized retailer, is considering two growth options: (A) merge horizontally with a rival to increase market share, or (B) enter a joint venture with an overseas distributor to access a new market. Analyse the case for option B, the joint venture, for Luna Clothing, using the scenario and considering both opportunities and risks.

(Total for Question 4 is 6 marks)

5 Explain one reason why a firm might choose retrenchment as a response to overexpansion, referring to costs and long-term survival.

(Total for Question 5 is 3 marks)

6 Fjord Foods, a fictional mid-sized UK food manufacturer, must decide between: (A) growing by selling franchises to local retailers in the UK, or (B) expanding by acquiring a regional supplier to secure ingredients and cut costs. Recommend which option Fjord Foods should choose. Justify your recommendation using analysis of costs, control, speed of growth and risk. Use the marks to structure a clear judgement.

(Total for Question 6 is 9 marks)

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Mark scheme · 3.4 Methods of Business Growth: Mergers, Joint Ventures and Franchising: 30-minute Pack

Question 1

C cao **B1**

Answer: C

Question 2

one feature, e.g. shared ownership and investment between the two firms **B1**

second feature, e.g. shared risks and rewards or combining complementary strengths **B1**

Answer: Any two, e.g. shared ownership and investment; shared risks and rewards; combining complementary skills or market access.

Question 3

one reason, e.g. access to a recognised brand and customer base **B1**

second reason, e.g. receiving training, operational support and established supply chains **B1**

Answer: Any two, e.g. access to brand and customers; training and operational support; easier finance from lenders due to a proven model.

Question 4

identifies opportunity: access to overseas market and local market knowledge from the distributor **B1**

develops opportunity: faster entry and lower marketing cost by using distributor's channels **B1**

identifies risk: potential loss of control over brand and quality when working with a local partner **B1**

develops risk: reputation damage or inconsistent customer experience could harm long-term sales **B1**

identifies financial/operational benefit: shared investment reduces capital needed and spreads risk **B1**

develops evaluation: balances opportunities and risks to reach a conclusion about suitability for Luna Clothing **B1**

Question 5

identifies a reason, e.g. to reduce costs and restore profitability **B1**

develops the point, e.g. closing loss-making outlets or selling assets cuts fixed costs and interest obligations **B1**

links to long-term survival, e.g. retrenchment can stabilise finances and allow the firm to focus on core profitable activities **B1**

Answer: Retrenchment can cut fixed costs by closing loss-making outlets or selling assets, reducing interest and running costs so the firm can stabilise finances and concentrate on core profitable activities for long-term survival.

Question 6

Level 1 Simple statements about one or both options with little application to Fjord Foods and no clear recommendation. **1-3**

Level 2 Developed discussion of advantages and disadvantages of one option with some application to Fjord Foods and a tentative recommendation. **4-6**

Level 3 Balanced analysis of both franchising and vertical acquisition with clear application to Fjord Foods, consideration of costs, control, speed and risk, and a justified recommendation. **7-9**

Indicative content:

- For franchising: lower capital required because franchisees invest; faster geographic expansion; potential loss of control over retail experience and quality which could harm brand.
- For acquiring a supplier: vertical integration may secure ingredient supply and reduce variable costs, improving margins and control over inputs, but requires significant capital and may add operational complexity.
- Risk comparison: franchising spreads risk to franchisees and is less cash-intensive, while acquisition concentrates risk and may increase debt and managerial burden, but offers longer-term cost advantages.
- Judgement could favour franchising if Fjord Foods needs rapid presence and has limited capital, provided strong franchise agreements safeguard quality; it could favour acquisition if supply security and long-term cost saving outweigh the upfront cost and complexity.

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