3.7 Retrenchment, Redundancy and Business Contraction as a Strategy: Test Pack

Total Marks

AQA 7132 · Calculator allowed · about 15 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Write full sentences for questions worth 3 marks or more. Show your working for every calculation.

1 Which one of the following is an example of a retrenchment action by a business?

- ☐ A) Opening three new stores in a neighbouring region
- ☐ B) Closing two underperforming stores to reduce costs
- ☐ C) Launching a new product line to enter a new market
- ☐ D) Increasing advertising spend across all stores

(Total for Question 1 is 1 mark)

---

2 Define 'redundancy' in the workplace as used in business and employment law.

(Total for Question 2 is 2 marks)

---

3 State two risks to a business's external reputation that can result from announcing multiple store closures and redundancies.

(Total for Question 3 is 2 marks)

© Revision Library | revisionlibrary.co.uk

4 Explain one advantage to Northwick Furnishings of selling the two freehold properties rather than mortgaging them to raise finance.

(Total for Question 4 is 3 marks)

5 Explain one reason a business might choose retrenchment rather than investment in growth, referring to a declining market.

(Total for Question 5 is 3 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 3.7 Retrenchment, Redundancy and Business Contraction as a Strategy: Test Pack

Question 1

B cao **B1**

Answer: B

Question 2

defines redundancy correctly, e.g. when an employee's job no longer exists or is reduced **B1**

develops with example, e.g. due to closing a department, falling sales or technological change **B1**

Answer: Redundancy is when an employee's job ceases to exist or is reduced, for example because a department closes, sales fall or jobs are replaced by technology.

Question 3

negative media coverage and loss of customer confidence **B1**

damage to relationships with suppliers and community, harming future partnerships **B1**

Answer: Negative media coverage and loss of customer confidence; damage to relationships with suppliers and the local community, harming future partnerships.

Question 4

identifies an advantage, e.g. selling generates immediate cash without increasing debt **B1**

develops the point, e.g. no ongoing interest payments and no additional secured liabilities **B1**

links to a business outcome, e.g. improves liquidity and reduces financial risk during a period of weak trading **B1**

Answer: Selling the freehold properties generates immediate cash without increasing debt, avoiding interest payments and secured liabilities, which improves liquidity and reduces financial risk while trading is weak.

Question 5

identifies a reason, e.g. market demand is falling so growth investments are unlikely to generate returns **B1**

develops the reason, e.g. spending on new products or stores may not be recovered because sales are shrinking **B1**

links to an outcome, e.g. retrenchment protects cash and reduces losses while the market is weak **B1**

Answer: If market demand is falling, investing in growth may not be recovered because sales are shrinking; therefore retrenchment protects cash by cutting costs and reducing losses while the market is weak.

© Revision Library | revisionlibrary.co.uk