GB2.1 Growing the business

AQA 8132 · Calculator allowed · about 60 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Study the case study below, then answer ALL questions. Show your working for any calculation. In your longer answers, use evidence from the case study and relevant business terminology.

Case Study: Marlow Outdoor Gear

Case study written for Revision Library. Marlow Outdoor Gear and Fellwalk Supplies are fictional businesses.

Marlow Outdoor Gear is a fictional retailer of camping and hiking equipment. It was founded six years ago by Jing Marlow, who opened a single shop in the market town of Aldbury, selling tents, walking boots and outdoor clothing to local customers. In its first year, Marlow Outdoor Gear had a turnover of 180,000 pounds. The business grew steadily, and Jing used profits from the Aldbury shop to open two more company-owned shops in nearby towns. Marlow Outdoor Gear now operates three shops and had a total turnover of 540,000 pounds last year.

Jing is now considering how to grow the business further. She is looking at three options.

Option A: Open two more company-owned shops in other market towns, funded by a bank loan of 120,000 pounds at an annual interest rate of 5 per cent.

Option B: Turn Marlow Outdoor Gear into a franchise, allowing other people to open and run shops under the Marlow Outdoor Gear name in exchange for a fee, so franchisees invest their own money to open and run new shops.

Option C: Merge with Fellwalk Supplies, a fictional wholesaler that currently supplies Marlow Outdoor Gear with tents and boots, to secure cheaper stock and a more reliable supply chain.

Jing's staff have mixed views. The shop managers worry that opening more company-owned shops will be difficult to control from a distance. The finance team like the franchise option because it needs less of Marlow Outdoor Gear's own money, but Jing is concerned about losing control of quality if she is not running every shop herself.

1 Which one of the following is an example of external growth?

- ☐ A) Opening a new company-owned shop in another town
- ☐ B) Increasing online advertising spending
- ☐ C) Merging with another business
- ☐ D) Training staff to improve productivity

(Total for Question 1 is 1 mark)

2 State two features of organic (internal) growth.

(Total for Question 2 is 2 marks)

---

3 State two features of external growth.

(Total for Question 3 is 2 marks)

---

4 Other than merging with a supplier, state two other methods of external growth a business could use.

(Total for Question 4 is 2 marks)

---

5 Identify from the case study one method of organic (internal) growth that Marlow Outdoor Gear has already used.

(Total for Question 5 is 1 mark)

---

6 Calculate the percentage growth in Marlow Outdoor Gear's turnover between its first year (180,000 pounds) and last year (540,000 pounds). Show your working.

(Total for Question 6 is 2 marks)

7 The finance team like Option B (franchising) because it needs less of Marlow Outdoor Gear's own money.
Which one of the following best explains why?

- ☐ A) Franchisees invest their own money to open and run new shops
- ☐ B) The government pays a grant for every franchise opened
- ☐ C) Banks always lend more money to a franchise than to a company-owned shop
- ☐ D) Franchise fees are paid to Marlow Outdoor Gear by the bank

(Total for Question 7 is 1 mark)

---

8 Marlow Outdoor Gear's shop managers worry that opening more company-owned shops (Option A) will be difficult to control from a distance.

(a) State two advantages to Marlow Outdoor Gear of choosing Option A (opening more company-owned shops). **(2)**

(b) State two disadvantages to Marlow Outdoor Gear of choosing Option A (opening more company-owned shops). **(2)**

(Total for Question 8 is 4 marks)

---

9 If Marlow Outdoor Gear funds Option A with a bank loan of 120,000 pounds at an annual interest rate of 5 per cent, calculate the interest Marlow Outdoor Gear would pay in the first year. Show your working.

(Total for Question 9 is 2 marks)

10 Analyse one advantage and one disadvantage to Marlow Outdoor Gear of choosing Option B (franchising) rather than Option A (opening more company-owned shops).

(Total for Question 10 is 6 marks)

---

11 Analyse the possible benefits to Marlow Outdoor Gear of choosing Option C (merging with Fellwalk Supplies).

(Total for Question 11 is 6 marks)

---

12 State two risks to Marlow Outdoor Gear of merging with Fellwalk Supplies (Option C).

(Total for Question 12 is 2 marks)

13 Using the case study, recommend which ONE of the three growth options (A, B or C) Jing should choose for Marlow Outdoor Gear.
Justify your recommendation.

(Total for Question 13 is 12 marks)

Mark scheme · GB2.1 Growing the business

Question 1

- **B1** C cao
- **Answer: C**

Question 2

- **B1** one acceptable feature, e.g. growth is financed from the business's own profits, savings or borrowing, rather than by joining another business
- **B1** a second acceptable feature, e.g. growth is usually more gradual than external growth, such as opening new company-owned outlets one at a time
- **Answer: Any two, e.g. financed by the business's own resources; usually more gradual than external growth.**

Question 3

- **B1** one acceptable feature, e.g. achieved by joining with another business, such as through a merger or takeover
- **B1** a second acceptable feature, e.g. can allow much faster growth in size/market share than organic methods
- **Answer: Any two, e.g. achieved by joining with another business (merger/takeover); can allow much faster growth than organic methods.**

Question 4

- **B1** one acceptable method, e.g. taking over a rival business (buying a controlling share of it)
- **B1** a second acceptable method, e.g. entering a joint venture with another business to share a specific project
- **Answer: Any two, e.g. taking over a rival business; entering a joint venture with another business.**

Question 5

- **B1** using profits from the Aldbury shop to open two more company-owned shops (oe, reference to opening additional company-owned shops from profit)
- **Answer: Jing used profits from the first shop to open two more company-owned shops.**

Question 6

- **M1** (540,000 - 180,000) / 180,000 seen, or equivalent (e.g. 540,000 / 180,000 = 3 seen)
- **A1** 200% cao
- **Answer: 200% increase.**

Question 7

- **B1** A cao
- **Answer: A**

Question 8

- (a) **B1** one acceptable advantage, e.g. Jing keeps full control over how every shop is run and how it represents the brand
- (a) **B1** a second acceptable advantage, e.g. Marlow Outdoor Gear keeps 100 per cent of the profit generated by the new shops
- **(a) Answer: Any two, e.g. Jing keeps full control of every shop; Marlow Outdoor Gear keeps all the profit from the new shops.**
- (b) **B1** one acceptable disadvantage, e.g. it may be difficult for Jing to control shops that are further away, as the shop managers worry
- (b) **B1** a second acceptable disadvantage, e.g. Marlow Outdoor Gear must fund all the set-up costs itself (e.g. through the 120,000 pound bank loan), increasing its financial risk
- **(b) Answer: Any two, e.g. harder to control shops from a distance; Marlow Outdoor Gear must fund all set-up costs itself, increasing financial risk.**

Question 9

- **M1** 120,000 x 0.05 seen
- **A1** 6,000 pounds cao
- **Answer: 6,000 pounds**

Question 10

- **Level 1** (1-3): Identifies an advantage and/or disadvantage of franchising with little or no development or use of the case study.
- **Level 2** (4-6): Develops a clear chain of reasoning, using evidence from the case study, to show how franchising specifically benefits or disadvantages Marlow Outdoor Gear compared with Option A.
- **Indicative content:**
  - Advantage: franchising needs less of Marlow Outdoor Gear's own money, since franchisees invest their own money to open and run new shops, reducing the financial risk that Option A's bank loan would create.
  - Advantage: franchisees are often more motivated than employed shop managers, since they have invested their own money and keep a share of the profit, which could improve how each shop is run.
  - Disadvantage: as Jing fears, she loses direct control over quality/standards in each shop, since franchisees run their own shops day to day.
  - Disadvantage: Marlow Outdoor Gear only earns a franchise fee/percentage of sales from each shop, rather than keeping 100 per cent of the profit as it would under Option A.
  - A well-developed answer links the case study's own evidence (the finance team's and Jing's differing views) to the analysis, rather than discussing franchising in general terms only.

Question 11

- **Level 1** (1-3): Identifies one or two possible benefits of the merger with little or no development or use of the case study.
- **Level 2** (4-6): Develops a clear chain of reasoning, using evidence from the case study, to show how the merger with Fellwalk Supplies specifically benefits Marlow Outdoor Gear.
- **Indicative content:**
  - Marlow Outdoor Gear could secure a more reliable supply of tents and boots, since it would own its own supplier rather than depending on an external one.
  - Merging could give access to cheaper stock, e.g. through economies of scale in buying materials or removing the supplier's own profit margin from the price Marlow Outdoor Gear pays.
  - Lower or more secure stock costs could improve Marlow Outdoor Gear's profit margins across all three (and any future) shops.
  - A more reliable supply chain reduces the risk of stock shortages disrupting sales, which matters more as Marlow Outdoor Gear grows to more shops.

Question 12

- **B1** one acceptable risk, e.g. the two businesses' management styles or cultures could clash, causing disagreements after the merger
- **B1** a second acceptable risk, e.g. the merger might not deliver the expected cost savings, wasting management time and money in arranging it
- **Answer: Any two, e.g. clashing management styles/cultures; the merger failing to deliver the expected cost savings.**

Question 13

- **Level 1** (1-3): Makes simple, undeveloped comments about one or more options, with little or no use of the case study and no clear recommendation.
- **Level 2** (4-6): Shows some understanding of at least one option, with limited use of case study evidence; a recommendation is stated but not developed.
- **Level 3** (7-9): Analyses at least two options using case study evidence, showing clear chains of reasoning; a recommendation is given with some supporting justification.
- **Level 4** (10-12): Weighs all three options against each other using detailed case study evidence, and reaches a well-justified recommendation of ONE option that is clearly supported by the analysis and shows awareness of the trade-offs involved.
- **Indicative content:**
  - Option A (more company-owned shops): keeps full control and full profit, matching Jing's proven organic-growth track record, but the shop managers' worry about control from a distance and the 120,000 pound loan (with 6,000 pounds of interest in year one) increase financial risk and management strain.
  - Option B (franchising): needs less of Marlow Outdoor Gear's own money since franchisees fund new shops themselves, and motivated franchisees may run shops well, but Jing loses direct control over quality, which she is explicitly worried about, and Marlow Outdoor Gear only earns a fee rather than full profit.
  - Option C (merging with Fellwalk Supplies): secures cheaper, more reliable stock and could improve margins across all shops, but does not by itself open any new shops, so it grows the business's supply chain rather than its market presence, and carries the risk of a clash between the two businesses' cultures.
  - A strong recommendation compares the three against Jing's own priorities shown in the case study (control over quality, limited own capital, existing supplier relationship) rather than treating the options in isolation.
  - Possible justified conclusions: recommend Option A if maintaining quality control matters most to Jing, despite the extra debt; recommend Option B if the priority is growing quickly with limited extra capital and franchisee quality can be managed through contracts/training; recommend Option C if Jing wants to strengthen the existing three shops' profitability before opening any more, or even recommend combining options (e.g. Option C now, Option A or B later) as a top-band, well-justified alternative.