Question 21 (10 marks)

Juicy Jack's Pty Ltd is a new health-oriented carbonated beverage company trying to enter a highly competitive market. They have a solid financial base and have innovative flavours such as 'Cranberry Crush' and 'Mango Mania'. Their market research indicated a "healthy" niche in this market but effective promotion will be essential to their success.

(a) Outline ONE target market for Juicy Jack's beverages.

One target market would be people who want to stay healthy and are therefore more likely to buy Juicy Jack's healthy beverages.
(b) Recommend ONE pricing method and ONE pricing strategy that would enable Juicy Jack's to achieve a share of the market.

One pricing method Juicy Jack's could use would be competitive pricing, where the business takes into account points the price of competitors to remain competitive with their own pricing. A pricing strategy Juicy Jack's could use is price penetration, this involves setting the lowest possible price when entering the market to encourage sales and establish market share. By taking into account the prices of competitors and setting Juicy Jack's below that, it will develop a differentiation on price, encouraging higher sales than competitors, allowing him to gain customer loyalty and maintain significant market share (overall sales of a business in comparison to the entire industry).

Question 21 continues on the next page.
(c) Explain TWO promotion strategies Juicy Jack's could use to establish market share.

A promotion strategy Juicy Jack could use to establish market share would be sales promotions. Sales promotions involve offering added bonuses, e.g., buy 1 get 1 free, etc. when customers purchase a product. While the effect of this is increased sales for Juicy Jack's and establishing market share (overall sales of a business in comparison to the food industry), another promotion strategy Juicy Jack's could implement would be personal selling. Personal selling involves the use of people in order to attract and sell goods directly to consumers. The effect of using personal selling will be that there will be a differentiation & for Juicy Jack's against competitors based on good customer service. The impact of this is increased sales over competitors receiving greater market share.

End of Question 21
Question 22 (8 marks)

Sitting Pretty Pty Ltd is a large, established furniture producer who uses a cost-leadership approach in the way they operate their factory and are always looking to reduce costs wherever possible.

(a) Identify a key piece of legislation that would have an influence on the way that operations are conducted at Sitting Pretty Pty Ltd's factory.

Workplace Health and Safety Act 2010. (To ensure workers are safe even in a low cost production environment)

(b) Describe how the concept of environmental sustainability may be in conflict with the cost-leadership approach adopted by the business.

Cost-leadership is the goal of the business to have the lowest costs of operations in the industry. This may conflict with environmental sustainability as often, in order to look after the environment it may cost the business more, though the use of recycled materials for example. This contradicts the business end of cost-leadership which aims at having the lowest costs. Environmental sustainability refers to business practices to ensure that the environment is not degraded in any way, and that it is able to be enjoyed by future generations in intergenerational equity.
Explain the relationship between economies of scale and a cost-leadership approach to operations management.

Economies of scale is the principle that, as the scale of operations increases, costs per unit of input decrease, creating efficiency. Cost-leadership is the goal of having the lowest costs of operations in the industry. Economies of scale is directly related with the goal of cost-leadership, in that, as a business grows more efficient operations by reducing costs per unit of production, it will cause lower expenditure for the business, achieving cost-leadership. However, if the scale of operations costs too high, this often causes higher costs of production, once the business passes the technical optimum, causing higher business expenses and not achieving cost-leadership.

End of Question 22
Question 23 (10 marks)

(a) Outline ONE ethical responsibility a business has to its employees using an example.

An ethical responsibility that a business has to its employees is providing a flexible workplace.

As it is not required by law, but is ethical as it takes into consideration the lives of employees. For example, a business might allow a single mother of 3 children the flexible working hours of coming in a bit later and leaving earlier so that she can drop and pick her children up from school.

(b) Compare the process of negotiating enterprise agreements with the negotiation of individual contracts.

Enterprise agreements is the employment contract in which outlines the minimum working conditions for the entire business such as wages, hours and rates and applies to all employees of the business. The process involves negotiating agreements in which satisfying the needs/wants of the employees of the business. This process is different to individual contracts as individual contracts is the employment contract that exists between the employer and a specific individual employee. The negotiation process differs from enterprise agreements as the minimum working conditions are specific to the individual and must be negotiated to satisfy the individual needs/wants of the employee.

Question 22 continues on the next page.
(c) Explain the interdependence between minimum wage rates and profitability of a business.

Minimum wage rates are undoubtedly interdependent with the profitability of a business. Minimum wages rates are a legal employment contract that exist between an employer and employee, and is the minimum full-time wage an employee is entitled to, and as of July 2013, it was $622.20 per week. The employee wages are considered an expense of the business, and therefore, the minimum wage rates increase, the minimum expenses of a business and in turn reduce the profitability of a business, which is revenue expenses.

The minimum wage rates may also be dependent on the profitability of the business, as if it is higher, the minimum wage rates under the awards or enterprise agreement may be higher, further reducing the profit margin between revenue and expenses of a business.

End of Question 23
Question 24 (12 marks)

Robertson & Walker Ltd has provided the information in the table as at 30 June 2013.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Robertson &amp; Walker Ltd</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>65%</td>
<td>75%</td>
</tr>
<tr>
<td>Net Profit</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Expense</td>
<td>45%</td>
<td>50%</td>
</tr>
<tr>
<td>Accounts Receivable Turnover</td>
<td>36.5 days</td>
<td>32 days</td>
</tr>
<tr>
<td>Gearing ratio</td>
<td>300%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(a) Assess the profitability and solvency of Robertson & Walker Ltd.

Through comparing financial ratios to industry standards, changes can be made accordingly.

- Robertson & Walker Ltd is below industry standard in both gross profit and net profit, suggesting a lack of efficiency within the business and a need to adopt best practices within the industry to regain effect. The return on equity ratio is well above industry standard, suggesting that the business is still making steady profts and will find it easier to secure finance as it is more profitable. The solvency measure is in line with an acceptable position, thus close to the industry standard. This suggests that the debt burden is reasonable for the business. This contributes to a majority of funding for the business. This is reflected in the balance sheet as interest expenses...
A major customer has asked Robertson & Walker Ltd for an extension to credit terms from 30 days to 60 days.

Explain the effect of the proposed extension on Robertson & Walker Ltd’s efficiency.

Consider the overall financial turnover volume at varying credit days. Is it ahead of the industry standard or behind? This extension will steadily reduce the business efficiency. This will result in negative cash flow for the business as budgets remain still fixed as liabilities. In spite of this, the extension is still justified for the business as it exposes it to bigger industry standard at 45%. Moving the large increase in liabilities will see this figure increase.

Question 24 continues on the next page.
Question 24 (continued)

(c) Outline why it's important that businesses maintain accurate financial records

It is important for a business to keep accurate financial records in order to not mislead any stakeholders as to the position of the business. This will ensure a good reputation as well as stakeholders more likely to find ways to ensure business success through investments, increased productivity, etc. if they are well informed of the business's financial position.

(d) Describe TWO limitations of financial reports.

One limitation of financial reports is capitalizing expenses. Capitalizing expenses refers to when a business invests in itself (e.g., Research and Development) using the business money, but regarding it as an asset and listing it that way on a balance sheet. By listing an expense as an asset, it gives an inaccurate depiction of the current financial position of the business, and its insolvency. The information may never even help the business in the long term. Another limitation of financial reports is valuing assets. Valuing assets refers to the issues businesses often incur when trying to put a monetary value on assets. So they can be subjective, especially in the case of intangible assets such as reputation and goodwill. By having such subjective measurements of assets, it can create an inaccurate depiction of the business's financial positions as assets can become over or under-valued.