

COMMERCE PRESENTATIONS AND PUBLICATIONS



**VCE BUSINESS MANAGEMENT 3/4**

**2019**

**Practice examination No. 1**

**SUGGESTED  
RESPONSES/ADVICE**

## Section A

### Question 1 (26 Marks)

**Great Southern Pty. Ltd. manufactures and installs solar panels. The business is based in Melbourne and employs 300 people. Great Southern prides itself on the quality of its products. The company's CEO, Maryam Natanson, believes that it is important that staff are motivated to do their job. However, Maryam has recently noticed a fall in productivity and an increase in the number of customer complaints. Maryam knows she must act now or the business will lose market share to competitors.**

**a. Define the following key performance indicators.**

**2 marks**

**Advice 1:** 'Define' simply requires students to provide meaning for a term. Students should try to write a definition that does not make use of the term itself. Straight definition questions do not necessarily require examples. However, it is often worthwhile providing an example so that the student is able to convince the assessor that they really do understand what the term means.

**Advice 2:** Students tend to struggle with key performance indicator (KPI) questions on the VCAA Business Management exam. On the 2014 exam, students were asked to define a KPI on three different occasions. All three KPIs were from the Business Management Study Design. Question 1a asked students to define 'staff turnover'. A total of 34 per cent of students scored zero and the average mark was 0.7 out of 1. Question 3a asked students to define 'percentage of market share' and 'number of customer complaints'. A total of 41 per cent of students scored zero and the average mark was 0.8 out of 2. Students scored poorly on these questions because they tended to write definitions that simply repeated the words in the term or they could not convince the assessors that they understood the KPI. Students also struggled with a definition question related to KPIs on the 2018 exam. This time they were asked to define the term 'key performance indicator' (question 3a in Section A). A total of 30 per cent of students scored zero and the average mark was 0.9 out of 2. This practice exam question is a repeat of the second poorly-handled key performance indicator question on the 2014 exam – question 3a.

**Advice 3:** Learning definitions is an important part of preparing for the Business Management exam. The 2014 Examination Report stated that "there are some preparation tasks that students could perform that would improve their performance. For example, a glossary that precisely and accurately defines key terms will assist students to gain better marks when answering those questions requiring a definition." The Study Design lists the performance indicators that students need to know, including percentage of market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints and number of workplace accidents.

- **Percentage of market share**

- 1 mark for a correct definition of 'percentage of market share'

*Sample answer: The amount of customers buying a business's product as a proportion of the total sales in a market, presented as a percentage. Any fall in Great Southern's market share would indicate that the business is not performing successfully.*

- **Number of customer complaints**

- 1 mark for a correct definition of 'number of customer complaints'

*Sample answer: The amount of customers expressing dissatisfaction with the business either in spoken or in written form. The increase in the amount of customers complaining at Great Southern indicates that customer are unhappy or dissatisfied with the way that the business is performing.*

**b. Discuss a management style that would be appropriate for overcoming the fall in productivity that has been identified by Maryam. 4 marks**

**Advice 1:** Questions related to management styles have appeared on 9 of the last 10 VCAA exams. In general, management style questions are answered reasonably well. This question has been included on this practice exam because a similar question to this appeared on the 2014 VCAA exam, where students were asked to discuss a management style. Many students struggled to answer this question properly. Question 3b asked students to discuss a management style that would best suit a CEO in overcoming a drop in productivity. Students were able to select an appropriate style and explain its characteristics, but struggled to apply it to the situation in the case material. Because the task word was 'discuss,' students were expected to address the strengths and weaknesses of the selected style. However, very few students were able to explain why the style was appropriate for the circumstance. The average mark for this question was 2.1 out of 4.

**Advice 2:** This practice exam question makes use of the task word 'discuss'. In the 2016 VCE Business Management examination report, the chief assessors noted that "students did not always interpret questions accurately and so did not directly answer the question being asked. In some cases this came from not focusing appropriately on the task word in the question and omitting portions of what would be a full response. Students must be aware of the requirements of task words; for example, 'discuss', 'compare' and 'evaluate'." The 2014 Examination Report clarified that the term 'discuss' means "to talk about something in detail, considering both pros and cons, benefits and limitations". For this question, students are required to consider both the advantages/ benefits and disadvantages/ limitations of the selected management style for Great Southern.

**Advice 3:** The Study Design lists the management styles as: autocratic, persuasive, consultative, participative and laissez-faire. Any of these styles would be appropriate; students must be able to relate the selected style to the situation at Great Southern and explain why it would, therefore, be an appropriate management style in this circumstance.

**Note 1:** There does not need to be an equal number of advantages or benefits and disadvantages or limitations. Students may, for example, present a strong argument related to the advantages of the use of the selected management style at Great Southern countered by two weaknesses of the style.

**Note 2:** There should be some application to productivity at Great Southern for full marks.

- 1 mark for explain the characteristics of an appropriate management style for overcoming the fall in productivity at Great Southern
- 1 mark for explaining the advantages/strengths of the selected management style for Great Southern's situation
- 1 mark for explaining the disadvantages/weaknesses of the selected management style for Great Southern's situation
- 1 mark for application of the management style to the productivity issue at Great Southern

**Sample answer:** *An appropriate management style that could be used at Great Southern to improve productivity is the participative style. This style involves the manager uniting with staff to share decision-making power. To improve productivity, Maryam might ask employees to work on the problem in teams and decide how the issue will be resolved.*

*One advantage of the use of the participative style is the high level of trust between management at Great Southern and employees that will often result in an improvement in employee performance. The contribution of employees would be valued and, in return, employees will be more likely to demonstrate greater commitment to Great Southern and its objectives. As employees feel more involved as members of a team, their motivation levels are likely to increase and, as they work together in teams, should be able to find a solution to the productivity issue. Overall, as the motivation, commitment and performance of employees rises as a result of the use of the participative style, employees should find that their productivity improves.*

*On the other hand, the participative style can be time consuming. Collecting input from all employees at Great Southern, and then reaching a decision together, all while considering each and every differing view, can take a long time. This is likely to have a negative impact on productivity. It is possible that even with all the views and opinions collected, that some employees will still disagree with any final decisions made. In addition, the increased involvement of employees can sometimes result in more disagreement, which can have a negative impact on productivity.*

**c. Other than communication, explain and justify two management skills required to address the issue of customer complaints at Great Southern. 4 marks**

**Advice 1:** The task word 'explain' requires students to include enough detail in responses such that the main point, topic or issue is expanded on or made clear. This question requires students to clearly explain two management skills that might be used by Great Southern to address its customer complaints issue. The task descriptor 'justify' is also used in this question. This requires students to point out reasons for forming a particular conclusion, which may involve the provision of evidence to support the argument. Students are therefore required to point out the reasons or the arguments supporting the use of each skill.

**Advice 2:** This question has been included on this practice exam because a similar question appeared on the 2016 VCAA exam. On that exam, students were asked to justify two management skills (other than communication) to successfully resolve disputes (question 5d). The average mark was 1.8 out of 4. In the examination report for 2016, the chief assessors noted that some students' responses for this question seemed prepared. That is, their responses did not relate to the situation in the case study.

**Advice 3:** A recurring issue with management skills questions is that students are typically able to identify an appropriate skill and justify its use (or apply it to the case study), but they are rarely able to explain the skill. However, it is worth noting that a management skills question has not appeared on the last two exams. In other words, there hasn't been a skills question on the exam during the life of the new study design.

- 1 mark for explaining a management skill (maximum of 2 marks)
- 1 mark for justifying how the selected management skill would address the customer complaints issue at Great Southern (maximum of 2 marks)

**Sample answer:** *To address the issue of customer complaints, management at Great Southern could use decision-making skills. This is the ability to identify the options available and then choose a specific course of action from the alternatives. Management would need to state what the desired goal or position is (to identify and rectify the cause of the customer complaints), outline the facts, identify alternative solutions, analyse the alternatives, and lastly, choose one alternative and implement it. Using decision-making should allow Great Southern to address the issue of customer complaints in a timely and methodical manner.*

*Another management skill that could be used is interpersonal skills. This is the ability to deal or liaise with people and build positive relationships with staff. Management will need to use clear communication and be sensitive to staff and customer needs. For example, management might communicate with customers and try to understand the source of the problems. Once identified, management should be able to explain the issue to staff, then positively influence employees to correct the issues and ensure that the problems do not occur again. Employees working in an atmosphere of open communication and trust are much more likely to support initiatives that contribute to resolving any issue.*

**d. Describe and discuss the use of either Maslow's or Locke and Latham's theory of motivation for assisting Great Southern to motivate its employees. Recommend which motivational theory would be the most suitable for Great Southern. 8 marks**

**Advice 1:** Beware the 'either/or' question! Both the 2015 and 2014 VCAA exams featured questions that required students to decide between two options. For example, Question 2b of the 2015 paper asked students to discuss either Maslow's or Herzberg's (a motivation theory on the old Study Design) motivational theory. Many students ignored the word 'or' and discussed both theories. The Examination Report noted that only the first theory would be assessed, which of course meant that many students wasted time writing about two motivation theories. Importantly, students should be aware that describing/discussing both options in a 'either/or' typically means that the first option is not discussed in sufficient length or detail. It is always possible that there will be another "either/or" question on the 2019 exam and students should avoid making the errors noted here.

**Advice 2:** The use of the task word 'describe' in this practice exam question indicates that students need to provide the characteristics and features of the thing, topic or issue they are asked to describe. In the case of this question, students must identify and describe either Maslow's or Locke and Latham's theory of motivation. The question also makes use of the task word, 'discuss'. For this question, students are also required to consider both the advantages/ benefits and disadvantages/ limitations of the selected motivation theory for Great Southern. Furthermore, the task descriptor, 'recommend' is also used in this question. This requires students to suggest an appropriate answer (suggest the most suitable motivation theory) and provide reasons in favour of that response.

**Advice 3:** This practice exam question is very similar to the 2015 VCAA exam question. It has been included in this CPAP exam because the question on the VCAA exam was handled so poorly. The average score for this question was 3 out of 8. While only 14 per cent of students scored 0 marks, 59 per cent scored 3 marks or less. Only 1 per cent scored 8 marks. Questions related to motivation theories have appeared on every one of the last 10 VCAA exams. Apart from the 2015 question, they are normally handled reasonably well.

**Note:** There does not need to be an equal number of advantages or benefits and disadvantages or limitations. Students may, for example, present a strong argument related to the advantages of the use of the selected motivation theory at Great Southern countered by two weaknesses of the theory.

- 1 mark for describing either Maslow's or Locke and Latham's theory of motivation
- 1 mark for further detail describing the selected motivation theory
- 2 marks for explaining the advantages/strengths of the selected motivation theory for Great Southern
- 2 marks for explaining the disadvantages/weaknesses of the selected motivation theory for Great Southern
- 1 mark for suggesting the most suitable motivation theory for Great Southern
- 1 mark for providing reasons in favour of the suggested motivation theory

**Sample answer:** *The most suitable motivational theory for Great Southern is Maslow's Hierarchy of Needs. Maslow's theory groups motivational factors into a hierarchy of five needs. Each need acts as a source of motivation for employees. The needs are ranked with the most basic needs situated at the bottom of the hierarchy, progressing to higher level needs at the top. An employee's level of needs at a specific level must be satisfied before they can move up to the next level. Once a particular need is satisfied it is no longer a motivator.*

*The use of Maslow's theory will present Great Southern with a number of advantages. It will allow management at the business to develop an understanding of individual needs, recognising that all individual employees are different and that they all have specific needs. Maslow's theory also will allow management to be aware that employees will be at different stages of development and that they will need to be motivated using a variety of methods. For example, staff might be offered generous pay as part of an overall remuneration package. This is likely to satisfy employees who are*

*motivated by physiological needs. To satisfy employees who are motivated by social needs, the business might develop a culture of teamwork, encourage involvement in decision-making or make use of supportive management. Employees with higher-order needs related to esteem and self-actualisation might be motivated by providing opportunities for career advancement, recognition or opportunities for training and development.*

*However, Maslow's theory has a number of disadvantages. It is only a theory, and is not supported by empirical evidence. Furthermore, the stages in the hierarchy do not apply to all individuals. A manager making use of Maslow's theory may struggle to identify the stage that is relevant for each individual employee – which makes it difficult to determine an appropriate strategy to motivate each employee.*

*Nevertheless, Maslow's theory will be most suitable at Great Southern as it will allow the business to create a workplace that attempts to satisfy all the needs of its employees. Management will be able to implement a range of different strategies at each level of the hierarchy, which will meet the needs of employees who are at different stages in their development. Providing strategies that meet employees at their level of need should ensure that employees are motivated.*

**e. Maryam is assessing the management of quality at Great Southern to determine if it best suits the needs of the business. She is considering implementing quality assurance to improve the effectiveness of the business's operations.**

**Compare quality assurance with one other quality strategy that Great Southern could implement to maintain the quality of its products. 4 marks**

**Advice 1:** The task word 'compare' requires students to consider similarities and differences. In the case of this question, students will need to write about the similarities and differences between quality assurance and a selected quality strategy. Compare questions are typically not handled well by students on VCAA exams. Take for example a compare question featured on the 2017 exam (Section B, Question 3). Students were required to compare quality control with one other quality strategy. The question was poorly answered, with many students scoring zero marks (40 per cent of students) and only 4 per cent scoring full marks. The average score was 1.3 marks out of 4.

**Advice 2:** This question has been included on this practice exam because a similar question on the 2017 VCAA exam question was handled so poorly. This question asks students to compare quality assurance with a selected quality strategy. In the examination report for 2017, the chief assessors noted that the choice of quality assurance and total quality management were both used successfully. However, they suggested that the students who selected quality assurance seemed to find it easier to outline both similarities and differences. It might be expected that this may also be the case if students selected quality control for this practice exam question.

**Advice 3:** Students typically struggle to find similarities in compare questions. When responding to a compare question, a good strategy for students is to begin by using the word 'both' to ensure there is at least one similarity. Differences should be pointed out using words such as 'whereas', 'however' or 'on the other hand'. It is also important to be precise with the similarities and differences. Defining key terms should allow students to find a point of difference. The similarity, however, should be something that the two terms share in common.

**Advice 4:** A further reason for including this question on this practice exam is that VCAA exam questions related to quality strategies have tended to be poorly answered. For example, Question 3c on the 2015 exam asked students to explain a management of quality strategy. The average score was only 1.5 out of 4 and 32 per cent of students scored zero marks.

**Note 1:** There does not need to be an equal number of similarities and differences. Students may, for example, comment on one similarity or difference and multiples of the other option in relation to quality assurance and the selected quality strategy.

**Note 2:** There must be application to Great Southern’s aim to maintain the quality of its products for full marks

- 1 mark for outlining a similarity between the two quality strategies (maximum of 2 marks)
- 1 mark for outlining a difference between the two quality strategies (maximum of 2 marks)

**Sample answer:** *Both quality assurance and quality control are strategies aiming at improving quality, that is, ensuring that the product is reliable, durable, easy to use, well designed and delivered on time. Both strategies involve the use of a set of standards. These might be specifications particular to the business or certifications that are used internationally, for example the use of ISO standards.*

*However, these two quality strategies do have differences. Quality assurance makes use of a set of standards as part of the use of a system to ensure that quality is achieved in production, whereas quality control involves the use of inspections to compare the product against set standards. This means that it is a reactive strategy – it detects defects in goods and services that have already been produced. Quality assurance is a proactive strategy, meaning that it prevents quality issues before they occur. Achieving set standards throughout the production process should allow Great Southern to maintain the quality of its products. Quality assurance improves quality by using a system that often involves an external organisation auditing the business against national or international standards. On the other hand, quality control improves quality by minimising errors and reducing problems in the production process. This should allow Great Southern to maintain the quality of its products as well as remain competitive.*

**f. Identify and explain two corporate social responsibility considerations that can influence the decisions made by management at Great Southern in relation to its operations system. 4 marks**

**Advice 1:** The study design requires students to demonstrate an understanding of corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs. This practice exam is similar to a 2014 VCAA exam question, which asked students to explain ways in which the business in the case study could ensure “that it is operating ethically in terms of the management of its human resources” (using language from the old study design). Students typically struggle with corporate social responsibility questions, and this is why the VCAA exam question has been reworded on this practice exam to incorporate operations management. The 2014 exam question was very poorly answered. A huge number of students scored zero marks (52 per cent of students) and only 3 per cent scoring full marks. The average score was 0.9 marks out of 4.

**Advice 2:** In the examination report for 2014, the chief assessors noted that some students’ responses dealt with OH&S issues. Students should be aware that this is a legal obligation and not a corporate social responsibility consideration. It is best to avoid commenting on legal obligations when asked for a corporate social responsibility consideration, as the latter refers to the obligations a business has ‘over and above its legal responsibilities’ to the wellbeing of employees, customers, shareholders, the community more generally, as well as the environment.

- 1 mark for identifying a corporate social responsibility consideration in Great Southern’s operations system (maximum of 2 marks)
- 1 mark for explaining how the corporate social responsibility consideration can influence the decisions made by Great Southern in relation to its operations system (maximum of 2 marks)

**Sample answer:** *One corporate social responsibility consideration in an operations system is the environmental sustainability of inputs. The considerations that management at Great Southern might make in this area involve ensuring that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). The business might, for example, decide to invest in energy-efficient equipment or source ingredients*

*from suppliers who make use of sustainable methods of production. Alternatively, management might decide to purchase inputs from local suppliers (rather than from overseas) to reduce emissions as a result of transportation by air or sea. This will obviously benefit the environment. It should also benefit local suppliers (and the local community) as they will be better able to retain market share, remain viable and protect local employment and incomes.*

*Another corporate social responsibility consideration that management at Great Southern will need to address in relation to its operations system is to reduce the amount of waste generated from its processes. The business could reduce waste by recycling materials, or making use of recycled materials, changing the way that it disposes of waste, or by attempting to reduce the amount of pollution in its processes. For example, by reducing waste and carbon emissions, it is possible that Great Southern will be able to improve its reputation as customers, and the public in general, discover that the business is acting in a socially responsible manner. This may ultimately result in more people, groups or businesses being willing to deal with Great Southern, which has the potential to raise sales and profits.*

## **Question 2 (10 Marks)**

**Facing rising costs, particularly high labour and energy costs, and increasing global competition, Australian Chemicals has decided to close down its manufacturing plant in Altona. The company has also announced a 50 per cent fall in its full-year profit from its previous full-year result in 2018. Australian Chemicals will now make use of overseas manufacture.**

### **a. Describe how business change has come about at Australian Chemicals. 4 marks**

**Advice 1:** Outcome 1 of Unit 4 states that students should demonstrate the ability to “explain the way business change may come about”. It is important to be aware of the outcomes and skills for each area of study in Business Management, as well as the key knowledge. The key knowledge dot points suggest what students need to know, but the outcomes and skills elaborate on this and inform students about what they should be able to do with the knowledge.

**Advice 2:** While a question directly relating to the relevant key knowledge dot point, “the concept of business change”, has never appeared on a VCAA exam, questions relating to area of studies 1 and 2 of Unit 4 are regularly on the exam. For example, on the 2018 exam, 31 marks clearly came from Unit 4.

**Advice 3:** In responding to this question, students should demonstrate an understanding of business change – this does not need to be through an explicit definition, however, defining key terms for this question would be a good strategy. Students also need to describe how change has come about at the business referred to in the case study. This should be accomplished by identifying the causes of change and elaborating on them. A number of causes of business change at Australian Chemicals are clearly raised in the case study; these include increasing costs, increasing competition, and poor financial performance. Students should know enough about these factors from their studies across Units 3 and 4 to be able to write about them in detail.

- 1 mark for demonstrating an understanding of business change (this does not need to be explicitly defined)
- 1 mark for identifying the causes of business change at Australian Chemicals
- 2 marks for describing how business change has come about at Australian Chemicals

**Sample answer:** *Business change is the adoption of a new idea or behaviour by a business. It comes about because of an alteration in the internal or external environments. Some changes will be forced on a business – in these cases a business may often be said to be reactive (waiting for a change to occur and then responding to it). Other changes are carefully planned – in these cases a business may be said to be proactive (initiating change rather than simply reacting to events). Change*



*may come about because of a change in tastes, expectations, the way things are perceived or a new way of dealing with problems.*

*One cause of business change at Australian Chemicals is rising costs. A business will incur a range of costs in the course of normal operations. These costs will typically include the cost of supplies or materials, utility costs, government charges and taxes, interest and other finance costs and wages. Rising costs will negatively impact on profit and may drive a business to change in response. Australian Chemicals is facing rising labour and energy costs, which has led the business to reduce costs by manufacturing in countries outside Australia, where labour and energy costs are lower.*

*Another cause of business change at Australian Chemicals is increasing global competition. Australian Chemicals faces increasing competition from businesses around the world. Global competition exists because of rival, or competing, businesses that meet the needs of customers internationally. As Australian Chemicals' competitors adjust their strategies, the business will need to change its own strategies to remain competitive.*

*Australian Chemicals' financial performance is another cause of business change. The company has announced a 50 per cent fall in its full-year profit from its previous full-year result. All businesses, including Australian Chemicals, need to earn a profit, of which a portion will be returned to shareholders. The company's poor financial performance negatively impacts on its objective to make a profit and to meet shareholder expectations, resulting in management deciding to close down its local manufacturing plant.*

**b. Analyse the effect of overseas manufacture on two of Australian Chemicals' stakeholders. **6 marks****

**Advice 1:** This practice exam question relates to new key knowledge in the VCE Business Management study design – "the effect of change on stakeholders, including managers, employees, customers, suppliers and the general community". However, it is similar to key knowledge that was previously in the study design.

**Advice 2:** The use of the task word 'analyse' in this question requires students to identify the key components of factors, topics or issues and outline the relationship between them. The current question asks students to choose two stakeholders and relate them to Australian Chemicals' decision to make use of overseas manufacture.

**Advice 3:** A similar question to the current question appeared on the 2014 VCAA exam. Question 5 of that exam asked students to describe two possible effects that change may have on the internal environment of a large-scale organisation (with reference to a significant change issue). Note that parts of that question relate to content on the old study design ('internal environment' and 'significant change issue') and the question was not handled well. The average score was 1.4 marks out of 4, and 25 per cent of students scored zero. On the 2017 exam, Question 4c asked students to analyse the impact that a reduction of the level of wastage may have on the suppliers of the business in the case study, and one other stakeholder. That question was handled reasonably well, with a higher average 2 marks out of 4, and with 16 per cent of students scoring zero.

- 1 mark for demonstrating an understanding of overseas manufacture (this does not need to be explicitly defined)
- 1 mark for demonstrating an understanding of each stakeholder (this does not need to be explicitly defined)
- 1 mark for outlining an effect of overseas manufacture on one stakeholder at Australian Chemicals (maximum of 2 marks)
- 1 mark for further analysis of the effect on a selected stakeholder (maximum of 2 marks)

**Sample answer:** *Overseas manufacture refers to a business, such as Australian Chemicals, producing its products in a country that is different to the location of the business's headquarters. Moving manufacturing to another country may have a negative effect on employees at Australian*

*Chemicals in that the change will directly impact on their employment and income, with employees (working at the business's manufacturing plant) very likely to lose their jobs. The change may also be stressful for other employees who do not work at the plant as they may be concerned that they will also lose their jobs. It is possible that Australian Chemicals may be able to retrain some employees so that they can move to other areas of the business. In this way, the decision to use overseas manufacture may have a positive effect on some employees, particularly those enjoying the challenge of a new position or the benefits of acquiring new skills.*

*Moving manufacturing to another country may have a negative effect on the general community. The change at Australian Chemicals can impact on the general community both directly and indirectly. For example, as the business closes its plant, there is likely to be a direct impact on employment in the local community. As this occurs, the local community may suffer as the former-employees lose income, reducing their spending. Other businesses may be indirectly affected as there will no longer be as many people in the local area who need their products.*

### **Question 3 (4 Marks)**

**Using a contemporary business case study from the past four years, illustrate the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.** **4 marks**

**Advice 1:** This practice exam question relates to new key knowledge in the VCE Business Management study design which has never appeared on the VCAA – “the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation”.

**Advice 2:** The use of the task word ‘illustrate’ in this practice exam question requires students to make something clear and explicit by giving examples or evidence. The current question asks students to comment on the importance of reviewing KPIs, using examples from a contemporary business case study. A good rule of thumb for dealing with those questions emphasising the ‘importance’ of something, is to consider what would happen if the thing, topic or issue in question did not exist.

**Advice 3:** Students should be aware that questions on the VCAA exam could ask about contemporary business case studies. The introductions to both Units 3 and 4 in the study design make it clear that students should be using contemporary business case studies from the past four years. On the 2018 exam, question 2 in Section A asked students to explain the importance of leadership in change management, referring to a contemporary business case study. In the 2018 examination report, the chief assessors said that students were generally able to reference a contemporary case study for the question referred to above. However, they found it difficult to relate the case study to the question. The chief assessors noted that students often simply retold the story of what happened at the business. The examination report also pointed out that the case studies provided within the exam are fictitious businesses and therefore do not meet the requirement for a contemporary business case study. Rather, a contemporary business case study should make use of a real business.

- 1 mark for demonstrating an understanding of what business transformation is (this does not need to be an explicit definition)
- 1 mark for referring to a contemporary business case study from the past four years
- 1 mark for clearly explaining the importance for the selected business of reviewing key performance indicators to evaluate business transformation
- 1 mark for further explanation using the selected business to link the review of key performance indicators and evaluating business transformation

**Sample answer:** *Key performance indicators (KPIs) are specific measures or sets of data used by businesses to determine how efficiently and effectively objectives have been achieved. A business will review KPIs once its transformation, or change, has been implemented as part of its evaluation and review of the changes it has introduced. For example, in 2018, Woolworths announced that its supermarkets, BWS, Metro and Woolworths Petrol stores would stop offering free single-use plastic*

*bags to shoppers nationally. Despite a backlash from some customers, the company persisted with the ban.*

*It is very important for Woolworths to review its KPIs following the implementation of this transformation. Essentially, this must be done to determine whether the strategies, used as part of the transformation of the business, were successful or whether there is a need to make further changes or modifications. When a business reviews KPIs to evaluate how effective a transformation was, it means that the business is considering how the change or changes impacted on its objectives.*

*As Woolworths reviewed its KPIs in August 2018, it found that its net profit figures had increased by 12.4 per cent. However, growth in sales slowed early in the 2019 financial year after it ceased providing the plastic bags. Woolworths acknowledged that phasing out single-use plastic bags had a negative impact on sales. However, the company anticipated that sales momentum would increase. When reviewing its KPIs in February 2019, Woolworths reported a 1 per cent increase in its first-half net profit for the 2019 financial year. Sales growth had gained momentum. This suggests that the strategies in the company's transformation may have had some success. If Woolworths did not review KPIs, then there is no way that the business would be able to determine whether the change introduced was successful or whether more needed to be done.*

#### **Question 4 (10 Marks)**

**Describe the relationship between business objectives and each of the following: operations management and employee management. Propose and justify one operations strategy and one strategy related to the management of employees that will ensure that business objectives are achieved.**

**Advice 1:** This practice exam question is very similar to the 10 mark question on the 2016 VCAA exam (Question 6). The question asked students to describe the relationship of operations and human resources to business objectives and then to discuss operations strategies and human resources practices or processes that communicate a commitment to being ethically and socially responsible (using terminology from the old study design). The average score was 3.3 out of 10 and 43 per cent of students scored 0 to 2 marks. Unsurprisingly, many students struggled to answer the question in full.

**Advice 2:** Generally, the best performing students on 10 mark questions read the question carefully and interpret it accurately. This same approach should be taken to this practice exam question, which focuses on the relationship between operations, managing employees and business objectives, and then requires students to propose and justify one operations strategy and one management of employees strategy. The strategies must be linked to business objectives. Note that the task descriptor 'propose' requires students to put forward an idea or suggestion for consideration or action and briefly outline it.

**Advice 3:** It is very likely that the 10 mark question on the 2019 VCAA exam will have several elements. In the 2016 Examination Report, the chief assessors reminded students that they should be aware that questions might have many elements that need to be addressed. For this reason, students need to ensure that they cover each element of the question in their responses. Students were also reminded that they should read the question carefully and plan their responses. It is worth remembering that the 10 mark question could come from Unit 3 or Unit 4, or from both.

The following is a breakdown of how marks could roughly be applied when assessing student responses. However, in reality, this type of question is likely to be marked globally.

- 1 mark for demonstrating an understanding of what operations management involves
- 1 mark for explaining the links between operations management and business objectives
- 1 mark for demonstrating an understanding of what human resources involves
- 1 mark for explaining the links between human resources and business objectives

- 1 mark for identifying or suggesting an operations management strategy that will ensure that business objectives are achieved
- 1 mark for briefly outlining the operations management strategy
- 1 mark for justifying the choice of operations management strategy, clearly linking it to the achievement of business objectives
- 1 mark for identifying or suggesting a strategy related to the management of employees that will ensure that business objectives are achieved
- 1 mark for briefly outlining the strategy related to the management of employees
- 1 mark for justifying the choice of strategy related to the management of employees, clearly linking it to the achievement of business objectives

**Sample answer:** *Operations management is the area of management that has responsibility for producing a business's product. It consists of all the activities in which managers engage to oversee the transformation of inputs into finished output. Without an operations area of management, a business would have no product and therefore would not be able to achieve its objectives (the desired goals, outcomes or specific results that a business intends to achieve). A particular focus for operations is to maximise efficiency and use resources to produce output at the lowest possible price. A business's operations area would support the attainment of business objectives through the use of strategies such as quality management, customer service, productivity, technological development, management of materials, waste minimisation and speed of delivery. Ultimately, the operations management area influences the cost, quality and availability of a business's product, which supports the attainment of objectives including increasing profit and business growth.*

*Forecasting is an operations strategy that will ensure that business objectives are achieved. This is a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events. A business will use this strategy to forecast the quantity and timing of demand for its good or service and then match supply with demand. A business may also forecast the costs of materials and transportation. A benefit of using the forecasting strategy is that a business can decide what goods or services to provide, how to produce these goods or services and in what quantity, allowing it to estimate or predict what materials are needed, and in what quantities. Forecasting will allow a business to ensure that it maintains an appropriate level of materials for its operations system without overproducing (which would result in the business carrying too much inventory, representing a cost to the business). Materials and stock remaining idle are prone to theft, damage or spoilage and may become unusable after a period. Alternatively, forecasting will allow a business to ensure that it has enough inventory for the operations to function – if there is not enough inventory, then underproduction is likely to occur. This will prevent the business from creating sales. Using the forecasting strategy should therefore result in lower costs for a business, increasing the possibility that the business will maximise profit. Ensuring that there are enough materials to create production that meets the demands of customers should also maximise profit. This should mean that the business has been successful in achieving its objectives.*

*Human resources is the area of management that is responsible for coordinating all the activities involved from acquiring to terminating employees - it essentially manages the relationship between the employer and employees. Managing employees makes an important contribution to the achievement of a business's objectives. A particular focus of this area of management at a business would be on positive work relationships, assisting employee motivation and labour productivity, and ultimately helping to achieve objectives such as profit and business growth. Employees are a crucial input in a business's production process. Well-designed strategies related to the management of its employees will help to ensure that 'human input', as a factor of production, contributes most effectively to the achievement of its business objectives.*

*Staff training is one such strategy related to the management of employees that will ensure that business objectives are achieved. Training options such as on-the-job and off-the-job training can be implemented to improve many areas of the business. Training involves teaching staff how to perform their job by boosting their knowledge and skills. By providing employees with training, the*

performance of staff should improve. For example, with improved skills, staff may be able to serve more customers in the same amount of time or produce more goods in the same amount of time, as well as making fewer errors. In this way, the training of employees should improve productivity, which is likely to result in lower per unit costs, a reduction in prices and improved competitiveness of the business. Fewer errors made by employees can also improve the quality of the good or service, further improving the competitiveness of the business. In addition, if training leads to an improvement in customer service, customer satisfaction may improve, and the improved reputation of the business may lead to more sales. This should mean that the business has been successful in achieving its objectives.

## **Section B – Case Study**

### **Case Study**

**Insurance Max is an insurance company listed on the Australian Securities Exchange (ASX) and headquartered in Sydney. It employs 10,000 people in over 30 countries.**

#### **Insurance Max’s objective:**

**To build a quality insurance business that helps customers protect their well-being.**

#### **Insurance Max’s values:**

- **We do what's right for our stakeholders.**
- **We are accountable and deliver on our promises.**
- **We act with integrity and professionalism.**
- **We work together as a team.**

**Following a huge loss in 2018, the company appointed Steven Taylor as its new chief executive officer the following year. Mr Taylor has recently announced a number of strategies that the business will implement to turn around its fortunes. These strategies will be implemented in response to the key performance indicators that can be seen in the following table.**

	<b>2018</b>	<b>2019</b>
<b>Percentage of market share</b>	<b>10%</b>	<b>9%</b>
<b>Net profit figures</b>	<b>(\$1.1 billion)</b>	<b>(\$3 million)</b>
<b>Rate of productivity growth</b>	<b>1%</b>	<b>0.4%</b>
<b>Level of wastage</b>	<b>0.5%</b>	<b>0.9%</b>
<b>Number of customer complaints</b>	<b>0.7%</b>	<b>0.8%</b>
<b>Rate of staff absenteeism</b>	<b>1.6%</b>	<b>5%</b>

**Firstly, Insurance Max will seek to simplify the business by cutting costs. Mr Taylor said that the business will also focus on increasing investment in innovation and technology. Furthermore, Insurance Max will attempt to embed a culture that supports its business objectives and encourages the right behaviours amongst its employees. Mr Taylor said that as part of a review into the business, he will also seek new business opportunities both domestically and globally.**

**Notably, Insurance Max's share price rose 5.5 per cent to \$5.92 after the announcement, following a fall of 10 per cent across the year.**

### **Question 1 (3 Marks)**

**Outline three characteristics of Insurance Max as a service business.**

**Advice 1:** This practice exam question relates to the key knowledge dot point in the study design which states that students must understand, "characteristics of operations management within both manufacturing and service businesses". There are many differences between manufacturing and service businesses including:

- the nature of the product (tangible vs intangible)
- the level of customer interaction
- the distinction between standardised and differentiated products
- production and consumption occurring simultaneously in service businesses but occurring separately in manufacturing
- services not being able to be stored while manufactured goods can be stored

Students should be able to draw on the above points to outline three characteristics of a service business. Note the use of the task word 'outline' here, which requires students to do more than just state or identify something. However, it does require a little less than a full description or explanation.

**Advice 2:** This particular question has been included on this practice exam because students have struggled with manufacturing and service business questions on past VCAA exams. For example, on the 2012 exam, question 1e asked students to describe one difference between the operations management of a manufacturing organisation and a service organisation (using terminology from the old study design). The average score was 1.1 out of 2 but 37 per cent of students scored 0 marks. A similar question on the 2011 exam asked students to outline three differences between the operations management of service and manufacturing organisations (Question 3c). The average score was 1.1 out of 3 and 44 per cent of students scored 0 marks. The main problem for students who failed to achieved full marks was their inability to pinpoint the clear difference(s) between the two types of organisations.

**Advice 3:** Another example of a manufacturing and service business question that was not handled well comes from the 2016 exam. Question 1b of that exam required students to 'distinguish between two key elements of the operations system of a manufacturing organisation and a service organisation'. The average score was a low 1.5 marks out of 4, and 34 per cent of students scored zero. While students were able to distinguish between manufacturing and service businesses, many neglected to refer to specific elements – as required by the question.

- 1 mark for explaining a characteristics of Insurance Max as a service business (maximum of 3 marks)

**Sample answer:** *As a service business, Insurance Max transforms inputs into services, or intangibles. Accordingly, a characteristic of Insurance Max as a service business is that its products cannot be touched or stored.*

*Another characteristic of Insurance Max as a service business is the level of customer interaction. Service businesses such as Insurance Max will have high levels of customer interaction as consumption usually occurs while the service is being produced. This will often involve customers physically attending an insurance office or interacting with an employee of the business via telephone.*

*A third characteristics of Insurance Max as a service business is that it tends to produce services that are differentiated or tailored to individual customers – that is, they are provided to individual*

customers and are modified to suit each customer. For example, Insurance Max is likely to offer a range of products, many of which can be tailored to suit the needs of individual customers.

## Question 2 (4 Marks)

**Identify two indicators of corporate culture at Insurance Max and explain how each reflects the shared values and beliefs of Insurance Max.**

**Advice 1:** This question has been included on this practice exam because past VCAA exams made use of the expression "indicators of corporate culture". The last time was on the 2013 exam; in this case, question 3b asked students to "identify two indicators of corporate culture and explain how each reflects the shared values and beliefs of an organisation." The average was 1.5 marks out of 4 and 39 per cent of students scored zero. In the 2013 examination report, the chief assessors said that, "This question seemed to be misinterpreted by some students who responded as if the question were about performance indicators." Students in 2013 should have been better prepared, because a similar question appeared on the 2008 exam. Question 1d on this exam asked students about two indicators of corporate culture that would have been considered by the businesses in the case study. The average was 1.6 marks out of 4 and 35 per cent of students scored zero. Student clearly performed worse on this question in 2013 than they did in 2008!

**Advice 2:** This practice exam question is very similar to the 2013 question. Two indicators of corporate culture will need to be identified and explained (in relation to Insurance Max's shared values and beliefs).

**Advice 3:** Some textbooks refer to indicators of corporate culture as 'elements' of corporate culture. Indicators of corporate culture include:

- values and practices – these are the way things are done in the business (examples include honesty, hard work and team work)
  - rituals, rites and celebrations – these provide a sense of belonging and acknowledge what is important in the business
  - symbols – these are events or objects established to represent something the business believes to be important
  - heroes – these are the business's successful employees who are held up as an example for others
  - dress code (traditional, casual, uniform) – this shows the degree of formality within the business
  - structures and management styles – these show the relationships between staff and managers
  - layout of working environment – open plans foster teamwork, whereas closed offices do not
  - the prevailing management style
  - attitudes of management to staff and staff to management
  - relations among staff
  - budgets and other statements of priorities
  - language used in the workplace
- 
- 1 mark for identifying an indicator of corporate culture at Insurance Max (maximum of 2 marks)
  - 1 mark for explaining how the selected indicator reflects the shared values and beliefs of Insurance Max (maximum of 2 marks)

**Sample answer:** *Corporate culture refers to the values, ideas, expectations and beliefs shared by the staff and managers of a business, which can influence the actions and decision-making of members of the business. Insurance Max's formal written objective and values statements are an indicator of its corporate culture. The company's purpose or reason for being is revealed in its objective. Its values statement outlines what the business wants to recognise as its corporate values. Insurance Max's objective reflects the business's shared values and beliefs related to quality and*

*assisting customers. Its values statement suggests that it will do what's right, it is accountable, it acts with integrity and professionalism, and that teamwork is important.*

*Another indicator of corporate culture at Insurance Max is the relationship between management and staff and staff to management. This is an indicator of the business's real corporate culture, referring to what is seen in the unwritten or informal rules that guide people in the workplace. This indicates what the business actually values and believes, which may be different to the official culture (what is officially revealed and presented to the public in the business's policies, objectives or slogans). Staff absenteeism has increased at Insurance Max which may imply that relations between staff and management are not positive. Mr Taylor has also suggested that management will need to encourage the 'right behaviours' amongst employees. This may imply that positive values and beliefs are not shared amongst management and employees.*

### **Question 3 (8 Marks)**

**Explain how each of the following management strategies could be used to respond to Insurance Max's key performance indicators and position the business for the future.**

**Advice 1:** This question relates to new key knowledge on the study design – “management strategies to respond to key performance indicators”. This practice exam question has been included because a similar question was asked on the 2018 exam. Question 3c in Section A asked students to explain how *redeployment of resources* and a *change in management style* could be used to respond to the KPIs in the case study and position the business in the case study for the future. Only 12 per cent of students scored zero. However, the average mark was a disappointing 3.2 marks out of 8, and 60 per cent of students scored 3 marks or less. Only 2 per cent of students scored full marks. In the 2018 examination report, the chief assessors noted that students answered the first part of the question well, but struggled to adequately reference the second part of the question, which asked them about how each strategy might position the business in the case study for the future.

**Advice 2:** This is an example of a question that obviously requires students to apply their knowledge to a scenario. Students must refer to the situation at Insurance Max within their response. Following past exams, the chief assessors have highlighted an issue with students' demonstrating a lack of ability to apply content knowledge to scenarios and situations provided in the exam. This is particularly important for Section B. In the 2017 Examination Report, the chief assessors stated that, “In the case study questions in Section B, students were asked to ensure that their responses applied to the case material. High-scoring responses were detailed and showed an understanding of the business in its nature and objectives, rather than general comments...”

#### **• Cost cutting**

- 1 mark for demonstrating an understanding of cost cutting
- 1 mark for explaining how cost cutting could be used to respond to the key performance indicators in the table
- 2 marks for explaining how cost cutting might position Insurance Max for the future

**Sample answer:** *Cost cutting refers to a business reducing its expenses through a variety of methods, such as lowering salary costs or reducing the use of resources. Every area in a business creates costs. A business will need to examine all of its activities and decide where costs in the production of its good or provision of its services can be cut. Insurance Max may decide to cut costs by reducing direct and indirect costs (or operating at lower cost), using assets more efficiently or controlling the supply chain to improve its net profit figures. Reducing costs is likely to have a positive impact on the business's net profit (what remains when expenses related to the operation of the business are deducted from the revenue earned), helping to increase it above the much improved figure of the \$3 million loss for 2019.*

*Cost cutting could also impact on Insurance Max's level of wastage, which has increased over the past year (from 0.5 per cent to 0.9 per cent). This may occur if the business, for example, focusses*



*on reducing energy costs. Cost cutting could also impact positively on the rate of productivity growth if the cost cutting is achieved by using inputs such as labour more efficiently or by reducing waste. In doing so, the use of this strategy should position Insurance Max for the future, helping to prevent a further fall in the rate of productivity growth. Reducing wastage and increasing productivity growth should help to reduce per unit costs and contribute to improved financial performance (via a higher net profit), ensuring that the business maximises its chances of experiencing success in the future.*

● **Increased investment in technology**

- 1 mark for demonstrating an understanding of increased investment in technology
- 1 mark for explaining how increased investment in technology could be used to respond to the key performance indicators in the table
- 2 marks for explaining how increased investment in technology might position Insurance Max for the future

***Sample answer:** Increased investment in technology refers to a business directing more amounts of finance into applications of knowledge that change people’s lives and change the way in which a business operates. All businesses will make use of technologies such as automated production lines, computer-aided design, computers, software and mobile technology. Directing finances into new technology will allow a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. Therefore, when Insurance Max invests in new technology, its use will help to increase the rate of growth in productivity (the level of output produced from a given level of inputs) up from the relatively low rate of 0.4 per cent recorded for 2019. This is because the new technology has the potential to increase production speeds, allowing greater output to be produced per hour or day. This should then reduce unit costs of production and help to raise net profit above the \$3 million loss.*

*Increased investment in technology could also impact on Insurance Max’s level of wastage. The use of technology such as robotics allows a business to produce products with precision and accuracy, which reduces waste. Increased investment in technology such as robotics should also ultimately impact positively on sales and net profit figures as quality is improved and costs are reduced. In addition, increased investment in technology strategies, such as website development, can have a positive impact on sales. This should position Insurance Max for future growth and success and help to reduce wastage below 0.9 per cent, boost productivity growth above 0.4 per cent, lift market share above 9 per cent and increase net profit above the \$3 million loss.*

**Question 4 (4 Marks)**

**Propose and justify a management strategy allowing Insurance Max to seek new business opportunities either domestically or globally.**

**Advice 1:** This question relates to new key knowledge on the study design: “management strategies to seek new business opportunities both domestically and globally”. This type of question has never appeared on a VCAA Business Management exam and it is useful to note that the study design does not specify the management strategies. Students should be able to draw from a large range of strategies already explored in the Units 3 and 4 Business Management course. However, the textbooks have identified a number of management strategies to seek new business opportunities both domestically and globally. These include:

- multiple branding
- product differentiation
- franchising
- making use of government services
- exporting
- online shopping

- innovation
- developing a niche market
- research and development
- the uptake of new/emerging technologies

**Advice 2:** The use of the task descriptors 'propose' and 'justify' here requires students to put forward an outline a management strategy that will allow Insurance Max to seek new business opportunities either domestically or globally. Students then must point out the reasons or the arguments supporting the use of this strategy.

- 1 mark for identifying or suggesting a management strategy that will allow Insurance Max to seek new business opportunities either domestically or globally
- 1 mark for briefly outlining the management strategy
- 2 marks for justifying the choice of management strategy, clearly linking it to the situation at Insurance Max

***Sample answer:** One management strategy that would allow Insurance Max to seek new business opportunities globally is innovation. Innovation refers to either creating a new good, service or process, or significantly improving an existing one. Insurance Max may use innovation to improve on what it has already established by enhancing its processes, products or ideas. For example, this might include finding better or more efficient ways of working or delivering the business's service. Innovation can result from research and development undertaken by the business or through individuals identifying areas for improvement.*

*Insurance Max's CEO, Steven Taylor, has already identified a number of areas of improvement, including investment in innovation and technology, so this strategy to seek new business opportunities globally would appear to be sound. Innovation could provide a cutting edge for Insurance Max and could be a key differentiator between its business and competitors, both in Australia and overseas. An innovation strategy that is focussed on improving practices and reviewing how activities are completed should also have a positive impact on Insurance Max's performance. The need or desire to innovate could improve productivity at the business as it works more efficiently. Innovation might come from supporting staff who develop potential ideas or improvements, and this could become part of the attempts to improve Insurance Max's corporate culture.*

### **Question 5 (6 Marks)**

**Outline one of the key approaches to strategic management from Porter's Generic Strategies. Evaluate how this approach could be applied in relation to Insurance Max.**

**Advice 1:** The two key approaches to strategic management by Porter's Generic Strategies (1985) are clearly listed in the Study Design: *lower cost and differentiation*. A question related to Porter appeared on the 2017 exam, asking students to identify and discuss one of the key approaches to strategic management. This question was answered poorly, with an average mark of 1.9 out of 5 marks, and 30 per cent of students scoring 0 marks. Students struggled to demonstrate an understanding of both the benefits and limitations of their choice, and to relate their response to the business mentioned in the case study.

**Advice 2:** The current question requires students to outline one of the two key approaches. This question also makes use of the task word 'evaluate', which requires students to outline both sides of a proposition or topic, then provide an overall conclusion or judgement about which argument is the more persuasive and why. In this case, students will need to evaluate the use of the differentiation approach in terms of Porter's Generic Strategies and relate this to Insurance Max. Students will then need to make a judgement as to the worth of the approach.

- 1 mark for outlining one of the key approaches to strategic management from Porter's Generic Strategies

- 2 marks for outlining the advantages of a differentiation approach in relation to Insurance Max
- 2 marks for outlining the disadvantages of a differentiation approach in relation to Insurance Max
- 1 mark for an overall conclusion or judgement based on the arguments related to a differentiation approach in relation to Insurance Max

**Sample answer:** *According to Porter, both lower cost and differentiation can be used by a business to pursue a competitive advantage. The differentiation approach involves a business making their product different, unique or superior in some way to that of competitors. For example, Insurance Max might provide customers with superior value in terms of service (flexibility, speed, or quality) or added features compared to lower priced competitors. Insurance Max might improve the quality of its product by ensuring that customers get exactly what they want when they purchase one of its insurance products.*

*By making use of a differentiation approach, Insurance Max will be able to improve its connections with customers and build long-term loyalty to its brand and products. Pursuing a differentiation approach can lead to customers valuing or perceiving the business's product as being unique and better than the competition. A business that is able to create a product with any distinctive attributes should be able to charge a premium price for its product because it will be able to pass costs on to its customers. If Insurance Max is able to charge a premium price for its high-quality insurance products, then it should be able to improve its revenue. If the business can maintain or improve customer loyalty, then it should also be able to gain market share from competitors.*

*However, in pursuing a differentiation approach, Insurance Max may find that implementing a differentiation approach will be costly. It may take years before Insurance Max achieves a brand image that sets it apart from its competitors. During that time, consumer tastes or preferences may change. Insurance Max may not have sufficient customer demand to offset higher costs, and this may lead to further losses. In addition, when making use of a differentiation approach, Insurance Max may discover that competitors are copying its strategies and stealing its customers. This will mean that the business may lose its unique attributes and therefore run the risk of no longer being 'differentiated' from its competitors.*

*Overall, a differentiation approach would seem to be the most appropriate strategy for Insurance Max in its current position. While it does have limitations, the differentiation approach is likely to be the strategy that has worked well for the business over time. Porter noted that a differentiator must not overlook cost, and Insurance Max appears to be focussed on simplifying its business by cutting costs. However, it is also focussed on innovation and investment in technology, suggesting that it is pursuing an approach where it is unique and better than the competition. By making use of a differentiation approach, Insurance Max may become more profitable as it charges a premium price for its product.*