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# **GCE A LEVEL MARKING SCHEME**

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**SUMMER 2018**

**A LEVEL (NEW)  
BUSINESS – UNIT 3  
BUSINESS ANALYSIS AND STRATEGY  
1510U30-1**

## **INTRODUCTION**

This marking scheme was used by WJEC for the 2018 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

## **GENERAL MARKING GUIDANCE**

### **Positive Marking**

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

**GCE BUSINESS**

**SUMMER 2018 MARK SCHEME**

**UNIT 3: BUSINESS ANALYSIS AND STRATEGY**

| <b>1 (a) (i)</b> | <b>Calculate the payback period for each of the two options in years and months.</b>   | <b>Total</b> |
|------------------|--|--------------|
|                  | Award <b>1</b> mark for correct formula                      AO1: 1 mark<br>Award <b>1</b> mark for each correct answer                      AO2: 2 marks<br>Yurt = 3 years 9 months<br>Hot tub = 3 years 4 months | <b>3</b>     |

| <b>1 (a) (ii)</b> | <b>Calculate the annual rate of return for each of the two options.</b>   | <b>Total</b> |
|-------------------|---|--------------|
|                   | Award <b>1</b> mark for correct formula                      AO1: 1 mark<br>Award <b>1</b> mark for each correct answer                      AO2: 2 marks<br>Yurt = $\frac{10\,000/5}{25\,000} = 8\%$<br>Hot tub = $\frac{10\,000/5}{20\,000} = 10\%$ | <b>3</b>     |

|              |  |   |  |
|--------------|--|---|--|
| <b>1 (b)</b> | <b>With reference to both quantitative and qualitative factors, advise Martyn and Cerys as to whether they should purchase the yurts or the hot tubs. [8]</b>  |   |  |
| <b>Band</b>  | AO2  | AO3   | AO4  |
|              | 2 marks  | 2 marks   | 4 marks  |
| <b>2</b>     | <p><b>2 marks</b></p> <p>Good clear application of quantitative and qualitative data from the Secret Yurts case study.</p>   | <p><b>2 marks</b></p> <p>Good analysis of the impact of quantitative and qualitative issues.</p> <p>A number of the key factors have been developed and clearly discussed.</p> <p>The analysis draws on the data.</p> | <p><b>3-4 marks</b></p> <p>A good evaluation of the quantitative and qualitative issues.</p> <p>The evaluation will include some of the key issues.</p> <p>Relevant judgements are made with qualifying statements.</p> <p>Qualified advice is given making clear reference to the case study.</p> |
| <b>1</b>     | <p><b>1 mark</b></p> <p>Limited application to the Secret Yurts case study making limited use of quantitative and/or qualitative data.</p> <p>The learner response is mainly theoretical with brief reference to the data.</p> | <p><b>1 mark</b></p> <p>Limited analysis of the impact of quantitative and/or qualitative issues.</p> <p>The analysis is likely to refer to few factors and will not be developed.</p> <p>Superficial discussion.</p> | <p><b>1-2 marks</b></p> <p>A limited evaluation of the quantitative and/or qualitative issues.</p> <p>Statements may be brief or not fully apply to the Secret Yurts.</p> <p>Unsupported judgements are made.</p> <p>Brief or no advice is given.</p>  |
| <b>0</b>     | <p><b>0 marks</b></p> <p>Incorrect or no application to the Secret Yurts case study.</p>   | <p><b>0 marks</b></p> <p>Incorrect or no analysis of the impact of quantitative and/or qualitative issues.</p>  | <p><b>0 marks</b></p> <p>Incorrect or no evaluation.</p>   |

## **Indicative content:**

### Quantitative factors:

- The yurts take five months longer to payback than the hot tubs. If the capital is borrowed this will increase the interest paid on the loan. However, although this favours the purchase of the hot tubs, there is not a major difference in payback between the two investments. As a result, it is unlikely that payback will be a significant factor in the selection process.
- The yurts return 2% less than the hot tubs. This is a significant difference and the extra revenue could be used to purchase a yurt at a later date. The quantitative data points to the purchase of hot tubs.

### Qualitative factors:

- In peak season the yurts are fully booked. This indicates that there may be unsatisfied demand. As a result, the yurt might be a better investment in order to accommodate additional trade.
- Even if the yurt was purchased, there are only five wet-rooms. As this may mean that wet rooms have to be shared, this may lower demand.
- Yurts being a long term solution due to maintenance/upgrade of hot tubs.
- Increased level of noise/pollution may prevent the application for planning; therefore option 1 may not be possible whereas option two may be suitable because there would not be so many tourists.
- Both quantitative pieces of data point towards the purchase of hot tubs being the best outcome. However, in peak season the yurts are fully booked. Therefore, as the purchase of the yurts will increase the overall trade for this business the purchase of the yurts should be carried out in order to maximise revenue and the long-term objective of growth.

Credit any other valid point.

OFR Applies.

| 2 (a) (i) | Calculate the current ratio for 2017 and 2016.  | Total    |
|-----------|---|----------|
|           | <p>Award 1 mark for correct formula AO1: 1 mark</p> <p>Current Assets : Current Liabilities<br/>or<br/><u>Current Assets</u> :1<br/>Current Liabilities</p> <p>Award 1 mark for each correct answer AO2: 2 marks</p> <p>2017= 887:731 = 1.21:1</p> <p>2016=1003:602= 1.67:1</p> | <b>3</b> |

| 2 (a) (ii) | Calculate the gearing rate for 2017 and 2016.   | Total    |
|------------|---|----------|
|            | <p>Award 1 mark for correct formula AO1: 1 mark</p> <p><math>\frac{\text{Long term liabilities.}}{\text{Owners capital + long-term liabilities}} \times 100</math></p> <p>Award 1 mark for each correct answer AO2: 2 marks</p> <p>2017= <math>\frac{1625}{1041+1625} \times 100 = 60.95\% / 61\%</math></p> <p>2016= <math>\frac{1125}{1286+1125} \times 100 = 46.66\% / 46.7\% / 47\%</math></p> <p>(1 mark off if no % sign)</p> | <b>3</b> |

| 2 (a) (iii) | Calculate the percentage change in working capital between 2016 and 2017.   | Total    |
|-------------|---|----------|
|             | <p>Award 1 mark for correct formula AO1: 1 mark</p> <p>Working capital = current assets - current liabilities</p> <p>Award 1 mark for each correct answer</p> <p>Working capital 2017 = 887-731= £156 AO2 : 1 mark</p> <p>Working capital 2016 = 1003-602= £401 AO2: 1 mark</p> <p>Change is <math>\frac{156-401}{401} \times 100 = 61.1\%</math> decrease AO2: 1 mark</p> <p>(1 mark off if no % sign and/or no reference to decrease)</p> | <b>4</b> |

|              |  |  |  |            |
|--------------|--|--|--|------------|
| <b>2 (b)</b> | <b>Evaluate the financial impact on The Woodland Experience Ltd of purchasing the new land.</b>  |  |  | <b>[8]</b> |
| <b>Band</b>  | AO2  | AO3  | AO4  |            |
|              | 2 marks  | 2 marks  | 4 marks  |            |
| <b>2</b>     | <p style="text-align: center;"><b>2 marks</b></p> <p>Good clear application to The Woodland Experience Ltd</p>   | <p style="text-align: center;"><b>2 marks</b></p> <p>Good analysis of the impact of quantitative and/or qualitative issues.</p> <p>A number of the key factors have been developed and clearly discussed.</p> <p>The analysis draws on the data.</p> | <p style="text-align: center;"><b>3-4 marks</b></p> <p>A good evaluation of the quantitative and qualitative issues.</p> <p>The evaluation will include some of the key issues.</p> <p>The learner makes judgements, which are supported by evidence.</p>                                    |            |
| <b>1</b>     | <p style="text-align: center;"><b>1 mark</b></p> <p>Limited application to The Woodland Experience Ltd</p> <p>The learner response is mainly theoretical with brief reference to the data.</p> | <p style="text-align: center;"><b>1 mark</b></p> <p>Limited analysis of the impact of quantitative and/or qualitative issues.</p> <p>The analysis is likely to refer to few factors and will not be developed.</p> <p>Superficial discussion.</p>    | <p style="text-align: center;"><b>1-2 marks</b></p> <p>A limited evaluation of the quantitative and/or qualitative issues.</p> <p>Statements may be brief or not fully apply to The Woodland Experience Ltd.</p> <p>Unsupported judgements are made.</p> <p>Brief or no advice is given.</p> |            |
| <b>0</b>     | <p style="text-align: center;"><b>0 marks</b></p> <p>Little or no application to The Woodland Experience Ltd</p>   | <p style="text-align: center;"><b>0 marks</b></p> <p>Little or no analysis of the impact of quantitative and qualitative issues.</p>   | <p style="text-align: center;"><b>0 marks</b></p> <p>Little or no evaluation.</p>  |            |

## **Indicative content:**

### Quantitative:

The profitability calculations suggest that the purchase of the new land has been positive for Woodland Experiences Ltd because both net profit and ROCE have increased slightly. Therefore, the business is now more profitable and providing greater returns for the shareholders. This may encourage them to continue to invest in future strategies for growth.

The current ratio decreases by 0.46:1. This is a significant reduction in the current ratio which may have been caused by the use of cash to complete some of the purchase of woodland. In 2016 the current ratio was within the accepted bounds of 2:1 and 1.5:1. The drop to 1.21:1 means that the new liquidity position is of slight concern. Therefore, the purchase may be considered as unfavourable to The Woodland Experience Ltd's short-term financial position.

It can be seen that gearing has increased from 46.66% to 60.95%. This is a concern as the new level is significantly higher than the accepted level for high gearing: 50%. As a result, it can be determined that gearing is worryingly high therefore the new land purchase, which seems to have been carried out with loans, has adversely affected the long-term financial position of The Woodland Experience Ltd.

Working capital has decreased by 61.1%. This is a very large reduction in working capital and highlights the concern over The Woodland Experience Ltd's short term financial position. As the accounts demonstrate, the creditors and other current liabilities have increased. This has caused a sharp change in the working capital leaving little to operate the business. Any increase in short-term costs could be difficult to meet. Therefore, it seems that the business should not have used so much of its cash in order to complete the purchase.

### Qualitative:

The Woodland Experience Ltd. has the objective of managing sites of natural beauty within Wales. As their new land purchase is likely to be well-known beauty spots this purchase fits perfectly with the organisation's objectives.

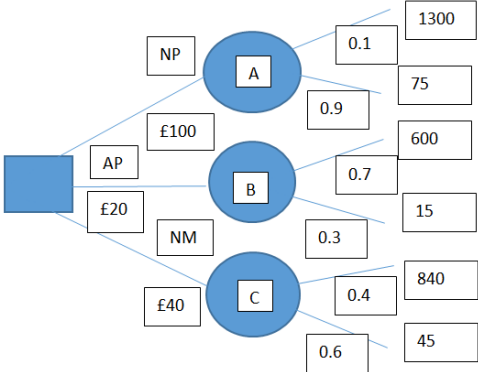
However, as The Woodland Experience Ltd generates funds through car parks and cafes the question remains as to whether they will be allowed to build these in the newly purchased site due to local authority opposition. If this proves to be the case the purchase was a poor idea.

From an environmental perspective the purchase of the new woodland may be counterproductive and damage to the natural environment may occur as a result of increased visitor numbers. This would eventually reduce demand to visit the area making the purchase a poor decision.

Overall, the purchase seems to be concerning in relation to the short-term financial position. However, in the long term the extra revenue may offset this cost. The success of the new land as an attraction depends on the ability to strike a balance between increased visitor numbers and maintaining the natural beauty of the area in order to satisfy the local council.

Credit any other valid point.



|                  |  |              |
|------------------|--|--------------|
| <b>3 (a) (i)</b> | <b>With the use of table 1, fully complete the decision tree diagram including the values of A, B and C.</b>   | <b>Total</b> |
|                  | <p>Award 1 mark for correctly labelling costs (£100, £20, £40)<br/>AO2: 1mark</p> <p>Award 1 mark for correctly labelling probabilities (0.1, 0.9, 0.7, 0.3, 0.4, 0.6) AO2: 1mark</p> <p>Award 1 mark for correctly labelling end values (£1300, £75, £600, £15, £840, £45) AO2: 1mark</p> <p>Award 1 mark for formula (probability x reward) and calculation<br/>AO1: 1mark</p> <p>Award 1 mark for formula for expected value and calculation<br/>AO1: 1mark</p> <p>Award 1 mark for correctly labelling the expected values in A, B, C<br/>AO2: 1mark</p>  <p><math>A=(1300\ 000\times 0.1)+(75\ 000\times 0.9)=130\ 000+67\ 500=£197\ 500</math></p> <p><math>B=(600\ 000\times 0.7) + (15\ 000\times 0.3) = 420000+4\ 500 =£424\ 500</math></p> <p><math>C=(840\ 000\times 0.4) + (45\ 000\times 0.6) = 336000+27000=£363\ 000</math></p> | <b>6</b>     |

|                   |  |              |
|-------------------|--|--------------|
| <b>3 (a) (ii)</b> | <b>Calculate the profitability of each of the three options.</b>   | <b>Total</b> |
|                   | <p>Award 1 mark for formula AO1 : 1 mark</p> <p>Award 1 mark for correct answers AO2 : 1 mark</p> <p>New product = £197 500 – £100 000 = £97 500<br/> Adjust product = £424 500 - £20 000 = £404 500<br/> New market = £363 000 - £40 000 = £323 000</p> | <b>2</b>     |

| <b>3 (b)</b> | <b>Evaluate the usefulness of decision tree analysis to Fast Snacks PLC. [8]</b>  |  |   |
|--------------|---|--|---|
| <b>Band</b>  | AO2   | AO3  | AO4   |
|              | 2 marks   | 2 marks  | 4 marks   |
| <b>3</b>     |   |  | <p><b>3-4 marks</b></p> <p>An excellent well-balanced evaluation of the key issues relating to decision trees.</p> <p>Clear judgements are made with qualifying statements that build the argument.</p> |
| <b>2</b>     | <p><b>2 marks</b></p> <p>Good clear application to Fast Snacks PLC.</p> <p>Points are clearly related to the context of Fast Snacks PLC.</p>            | <p><b>2 marks</b></p> <p>Good analysis of issues relating to decision trees.</p> <p>Point made are developed and well explained.</p> | <p><b>2 marks</b></p> <p>A good level of evaluation of issues relating to decision trees.</p> <p>Judgements are well balanced.</p>  |
| <b>1</b>     | <p><b>1 mark</b></p> <p>Limited application to Fast Snacks PLC.</p> <p>The learner response is mainly theoretical with brief reference to the data.</p> | <p><b>1 mark</b></p> <p>Limited analysis of issues relating to decision trees</p> <p>Points made are in general.</p>                 | <p><b>1 mark</b></p> <p>Limited evaluation of issues relating to decision trees.</p> <p>Unclear judgements are made.</p>  |
| <b>0</b>     | <p><b>0 marks</b></p> <p>No application to Fast Snacks PLC.</p>   | <p><b>0 marks</b></p> <p>No analysis of issues relating to decision trees.</p>   | <p><b>0 marks</b></p> <p>No evaluation of issues relating to decision trees.</p>  |

**Indicative content:**

- Visual aid to help make an informed choice.
- Decision trees allow a direct comparison between activities and so can be helpful in considering the most suitable course of action.
- Activities which require a sizable financial investment may require some justification before a decision is made. The decision tree may help in securing funds for such an investment e.g. the £100,000 required to develop a new product. Therefore, it could be necessary when convincing investors or budget holders of the best assumed course of action.
- Probabilities and end rewards are difficult to estimate. Therefore, it is usually the case that the decision tree shows the best assumed quantitative response. This may differ from the reality once the activity is carried out.
- The decision tree can oversimplify the decision and focus too much on the financial outcome. External factors should be considered such as market conditions and customer needs and wants.
- Data manipulated/bias from management to support a specific option. For example, Katie may influence the decision towards updating products.
- The decision tree is only as accurate as the information it is based upon. However, some information is better than none when making financial investments therefore it is of use but should not be considered a guarantee of financial return.

Credit any other valid point.

|             |  |   |  |
|-------------|--|---|--|
| <b>4</b>    | <b>Explain the benefits and drawbacks to Barclays Bank of closing branches within Wales. [8]</b> |   |  |
| <b>Band</b> | AO1  | AO2   | AO3  |
|             | 2 marks  | 2 marks   | 4 marks  |
| <b>2</b>    | <b>2 marks</b><br>Good understanding of issues relating to rationalisation.                      | <b>2 marks</b><br>Good clear application to Barclays Bank branch closures within Wales.   | <b>3-4 marks</b><br>A good analysis of benefits and drawbacks.<br><br>Good progression of arguments in order to demonstrate effects of the closures. |
| <b>1</b>    | <b>1 mark</b><br>Limited understanding of issues relating to rationalisation.                    | <b>1 mark</b><br>Limited application to the case study information.<br><br>The learner response is mainly theoretical with brief reference to the data. | <b>1-2 marks</b><br>A limited analysis of issues demonstrating little progression of ideas.<br><br>Undeveloped outcomes of the bank closures.        |
| <b>0</b>    | <b>0 marks</b><br>No understanding of issues relating to rationalisation                         | <b>0 marks</b><br>No application to the case study information.   | <b>0 marks</b><br>No analysis demonstrated.  |

**Indicative content:**

Benefits:

Due to low levels of population in smaller Welsh towns and villages it is likely that the occasionally used specialist services such as mortgage advisors may be underutilised. By closing these branches Barclays will be able to maintain these functions in larger cities therefore increasing their efficiency of use.

Reduction in variable costs through reduced wage bills will benefit Barclays. This cost reduction will reduce cash outflows from the business and as a result will improve their liquidity position.

Customers can switch to online services. As Barclays 'Digital Eagles' service has trained customers to be able to use the internet and online banking services. Therefore, customers carrying out everyday transactions may do so from their phone, tablet or computer. As a result, therefore will be no reduction in demand.

Drawbacks:

Increased costs in the short term as result of potential redundancy payments from the closure of the banks and possible payments on premises e.g. completion of rental agreements.

Existing staff may feel insecure about jobs and could become demotivated affecting their level of service.

Although Barclays have developed a 'Digital Eagles' training program to help customers access their services online, some customers may not wish to access their accounts this way due to concerns about cyber-crime. As a result, a loss of customers may occur in locations where customers are still able to visit a bricks and mortar bank.

As Barclays Bank disappears from Welsh high streets it is likely that potential customers become less aware of the company. As a result, Barclays may begin to lose market share as it fails to gain new customers. This is a particular problem in the banking industry as customers, once signed up to a bank do not often change to another provider.

The public image of Barclays Bank may suffer. As the bank has received attention for closing the last bank in Aberfan, this may reflect badly on the company and may put customers off banking with Barclays as it is seen to behave unethically.

Credit any other valid point.

|             |   |   |  |            |
|-------------|---|---|--|------------|
| <b>5</b>    | <b>Explain ways in which the Ansoff Matrix may be of use to Caws Cenarth in devising its marketing strategy.</b>  |   |  | <b>[8]</b> |
| <b>Band</b> | AO1   | AO2   | AO3  |            |
|             | 2 marks   | 4 marks   | 2 marks  |            |
| <b>3</b>    |   | <b>3-4 marks</b><br>Excellent application to the Caws Cenarth case study.<br><br>The learner makes excellent use of the data throughout their answer to support points. |  |            |
| <b>2</b>    | <b>2 marks</b><br>Good understanding of the elements of the Ansoff matrix.<br><br>or<br><br>Fully completed matrix diagram.                             | <b>2 marks</b><br>Good application to the Caws Cenarth case study.<br><br>The learner makes effective use of the data throughout their answer.                          | <b>2 marks</b><br>Good analysis of elements within the Ansoff matrix occurs.<br><br>Points are developed and well explained. |            |
| <b>1</b>    | <b>1 mark</b><br>Limited understanding or incomplete understanding of the elements within the Ansoff Matrix.<br><br>Partially completed matrix diagram. | <b>1 mark</b><br>Limited application to the Caws Cenarth case study.<br><br>The learner response is mainly theoretical with limited use of the case study scenario.     | <b>1 mark</b><br>Limited analysis of the elements within the Ansoff matrix occurs.<br><br>Points made are in general.        |            |
| <b>0</b>    | <b>0 marks</b><br>No understanding of issues surrounding the Ansoff Matrix  | <b>0 marks</b><br>No application to the Caws Cenarth case study.  | <b>0 marks</b><br>No analysis of the key aspects of the Ansoff matrix.   |            |

**Indicative content:**

Market penetration: This involves selling the same product to the same market. As Caws Cenarth already has existing customers these may be encouraged to consume more of the product by offering discounts for larger orders or encouraging customers to try more of their cheeses. In doing so, this will lead to an increase in sales for this business.

Market development: As the product seems to be sold in top end stores within the country, Caws Cenarth may attempt to target an international market. As their award winning cheeses will be a desirable commodity in other countries Caws Cenarth could target the European market in order to develop their sales and increase awareness of their brand amongst an international community.

Product development: It is clear that the business is successful in the creation of new products as their new creation, Golden Cenarth has won the title of Supreme Champion at the British Cheese Awards. Caws Cenarth could benefit from further product development by working on new cheeses or look in to other milk based produce such as yogurt. In doing so, the business will extend their product range and attract interest from new sectors of the market.

Diversification: As this small business has developed an award winning reputation for its products this may be an ideal time to move into different market and new products. Caws Cenarth could look in to producing complementary products such as crackers to be sold alongside their cheese or separately. In doing so, the business will be able to branch out to another area of the market leading the risk of a downturn in the cheese market.

Credit any other valid point.

|              |  |   |
|--------------|--|---|
| <b>6 (a)</b> | <b>Outline <u>two</u> requirements which may be expected of ChipsAway in return for the £15 000 payment. [4]</b> |   |
| <b>Band</b>  | AO1  | AO2   |
|              | 2 marks  | 2 marks   |
| <b>2</b>     | <b>2 marks</b><br>Two requirements expected of franchisors are identified.                                       | <b>2 marks</b><br>Two requirements expected of the franchisors role are applied to ChipsAway. |
| <b>1</b>     | <b>1 mark</b><br>One requirement expected of franchisors is identified.  | <b>1 mark</b><br>One requirement expected of the franchisors role is applied to ChipsAway.    |
| <b>0</b>     | <b>0 marks</b><br>No requirements expected of franchisors are identified.  | <b>0 marks</b><br>No requirements expected of the franchisors role is applied to ChipsAway.   |

**Indicative content:**

- Training would need to be provided by ChipsAway in order that the franchisees were able to operate to the quality desired by the franchisor.
- In order to maintain consistency in the finished repairs it is likely that the franchisor would provide the materials such as paints and fillers.
- Franchisee's often opt for this business model because the brand is well known. Therefore, ChipsAway will need to carry out national advertising in order to maintain their position as market leader.

Credit any other valid point.

|              |   |   |   |             |
|--------------|---|---|---|-------------|
| <b>6 (b)</b> | <b>Discuss the view that expanding a business through franchising is significantly more effective than other methods of growth.</b> |   |   | <b>[12]</b> |
| <b>Band</b>  | AO1   | AO3   | AO4   |             |
|              | 2 marks   | 4 marks   | 6 marks   |             |
| <b>3</b>     |   |   | <p><b>5-6 marks</b><br/>An excellent well-balanced evaluation of the key issues involved in expanding through franchising rather than through other methods.</p> <p>Clear judgements are made with qualifying statements that build the argument.</p> |             |
| <b>2</b>     | <p><b>2 marks</b><br/>Good understanding of franchising and other methods of growth.</p>  | <p><b>3-4 marks</b><br/>Good analysis of the issues related to growth through franchising and other methods.</p> <p>Points made are developed and well explained.</p> | <p><b>3-4 marks</b><br/>A good level of evaluation of issues related to growth through franchising and other methods.</p> <p>Judgements are well balanced.</p>  |             |
| <b>1</b>     | <p><b>1 mark</b><br/>Limited understanding of franchising or other methods of growth.</p>   | <p><b>1-2 marks</b><br/>Limited analysis of the issues relating to growth through franchising or other methods</p> <p>Points made are in general.</p>                 | <p><b>1-2 marks</b><br/>Limited evaluation of the issues related to growth through franchising or other methods.</p> <p>Unclear judgements are made.</p>  |             |
| <b>0</b>     | <p><b>0 marks</b><br/>No understanding of franchising or other methods of growth.</p>   | <p><b>0 marks</b><br/>No analysis of the issues relating to growth through franchising or other methods.</p>  | <p><b>0 marks</b><br/>No evaluation of the implications to stakeholders of growing through franchising.</p>   |             |

**Indicative content:**

Answers might include the following:

- Growth through franchising is useful as the business can limit its financial risk. As franchisees pay for the franchise and will continue to pay for raw materials this leaves the franchisor in a situation of having a steady income without having to carry the work out themselves. If the business grew organically by opening its own stores this would carry a heavier investment risk.
- External growth may be carried out by mergers or takeovers. In doing so, the companies are likely to have different working practices and cultures. As franchising allows entrepreneurs to join the business and often gives guidance on working practices it is more likely that there will be limited disruption when entrepreneurs join as they will be adapting existing working practices.

- However, it can be the case that franchisees may place a risk upon the franchisor. Franchisees may not follow correct procedure. This may result in quality being poor or unacceptable. As the franchisee presents themselves as the franchisor this may result in bad press for the franchisor resulting in a loss of trade and damage to brand image.
- Additionally, although franchisees generate revenue for the franchisor, if the franchisor grew by organic growth it would mean a higher profit for the franchisor. The franchise arrangement means that the franchisor does not receive the full revenue from sales. The effect of this is reduced profits for the franchisor.
- Overall, it appears that the franchise arrangement is effective in achieving growth whilst avoiding some of the financial difficulties of investing in new outlets during organic growth or buying out other businesses during external growth. However, long-term the franchisor will lose revenue to the franchisee. Therefore, it can be concluded that the loss of revenue by choosing a franchising arrangement is only worthwhile if the risks which the franchisee takes on would pose an issue for the franchisor.

Credit any other valid point.