



# **GCE MARKING SCHEME**

## **BUSINESS STUDIES AS/Advanced**

**SUMMER 2011**

## **INTRODUCTION**

The marking schemes which follow were those used by WJEC for the Summer 2011 examination in GCE BUSINESS STUDIES. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were 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 conferences was to ensure that the marking schemes were 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' conferences, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about these marking schemes.

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## **BS1**

### **GENERAL MARKING GUIDANCE**

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

### **Levels of Response**

Questions are awarded marks on the basis of the levels of response. The purpose of this is to award the so-called higher level skills, particularly of analysis and evaluation. In practice, the good Business Studies candidate is likely to demonstrate a good grasp of the information presented to him/her, he/she will be able to weigh this up in the light of his/her theoretical understanding of the subject and will be able to suggest appropriate strategies to deal with the situation. Candidates who have a deficiency in their theoretical understanding or who are unable to analyse properly a situation, are unlikely to be able to synthesise or evaluate in a meaningful way.

In marking scripts reference should be made to the relevant part of the mark scheme and the candidate should be awarded a mark that corresponds to the highest level that he/she has demonstrated.

### **Quality of written communication**

The QWC is assessed in question 5(b).

**Q.1 Explain with the use of examples, the meaning of the *public sector*. [4]**

2 marks for explanation and 2 for examples (1 for each example)

Organizations which are owned (1) and operated/run/funded/controlled by the government (national or local) (1)

e.g. BBC, Royal mail, education, health service, defence, courts, regulatory bodies such as Ofgas.

At a local level e.g. leisure centres, libraries, etc.

**Q.2 (a) Suggest which method of production would be most appropriate for Angharad when making her jams. Give reasons for your answer. [4]**

(1 for method plus 1 - 3 for explanation)

Given the information it is **batch production** because the type of production method depends on the nature of the product and the number required.

Regular demand not a "one off". Suitable when production is divided into a number of operations. A particular operation is carried out on all products in a batch. The batch then moves to the next operation. Suitable for standardised products but possible to vary each batch. Reference to niche market.

Not job production because not a "one off". Not producing vast quantities so not flow/mass production.

May compare with other products/production methods, e.g. bread making, to illustrate why batch production is appropriate.

**(b) Explain the advantages to Angharad of operating in a niche market. [6]**

<b>Level 1</b>	1-2 marks	Definition of a niche market/candidate briefly outlines one or two advantages of operating in a niche market.
<b>Level 2</b>	3-4 marks	Candidate attempts to explain the advantages of operating in a niche market.
<b>Level 3</b>	5-6 marks	Candidate fully explains two or more advantages of operating in a niche market.

Answers may refer to:

A niche market is a specialized market segment where you cater for the demand for products/services that are not currently being supplied by the main suppliers. It is essentially a narrowly defined market segment.

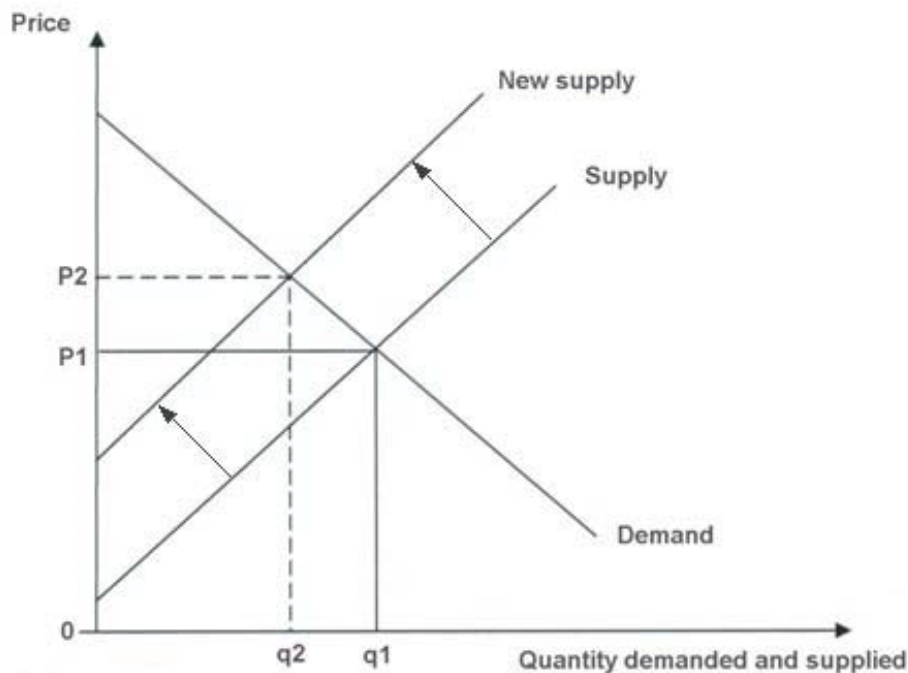
- Angharad can charge higher prices/premium prices which customers are prepared to pay. Therefore, profit margins may be larger.
- Able to sell to markets that have been overlooked or ignored by other firms – she can avoid competition, at least in the short run. The great advantage of being the sole supplier in your target market.
- By targeting specific market segments Angharad can focus on needs of her customers in these segments, thereby is providing a better product or service. She can get 'closer' to her customers.

- Promotion costs can be kept lower as Angharad can focus on a specific target group, unlike other forms of promotion which tends to aim at a broader segment of the population.
- In a recession niche markets may have characteristics which enable them to weather difficult trading conditions.

**Q.3 (a) Adapt the diagram and explain why the price of Chilean wine might rise. [4]**

2 for correct diagram + 2 for explanation.

A leftward shift in supply curve (1) Marking of new equilibrium price and equilibrium quantity (1)



Explanation

- The evidence i.e. earthquake destroys large percentage of wine, suggests that the supply curve shifts to the left (1) will lead to an increase in price to P2 (1) because at price of p1 demand exceeds supply (1).
- New equilibrium formed where 'New Supply' cuts original demand curve (1).

**(b) Explain the factors that might influence the demand for Chilean wine. [8]**

<b>Level 1</b>	1-2 marks	Candidate identifies factors that might influence the demand for Chilean wine.
<b>Level 2</b>	3-5 marks	Candidate attempts to explain factors that might influence the demand for Chilean wine.
<b>Level 3</b>	6-8 marks	Candidate fully explains a number of factors that may influence the demand for Chilean wine.

Candidates may refer to:

- price of the wine e.g. price rises demand will fall (Q1 to Q2);
- income – general income levels/incomes of those who may be seen as wine drinkers.;
- advertising and promotion;
- quality;
- reputation of Chilean wine;
- consumer tastes/fashion/lifestyle in favour/against Chilean wine;
- the price of substitutes – wines from Italy, France, Australia, etc and perhaps the price of other alcoholic drinks such as beer, cider, spirits, etc.
- Government legislation e.g. raising age for drinking. Taxation.
- Weather may influence demand.

**Q.4 To what extent are social enterprises different from other types of business? [8]**

<b>Level 1</b>	1-3 marks	Candidate shows simple understanding of social enterprise businesses/outline the characteristics of social enterprise businesses.
<b>Level 2</b>	4-6 marks	Candidate outlines characteristics of social enterprise businesses and attempts some comparison with other types of businesses.
<b>Level 3</b>	7-8 marks	Candidate outlines characteristics of social enterprise businesses, compares with other types of businesses and draws valid conclusions.

Possible responses may include:

- Social enterprises include for-profit and not-for-profit businesses (e.g. co-operatives) with primarily social objectives, trading for social and environmental purposes, whose surpluses are mainly reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Operating in what has become known as the "Third Sector" (neither public nor private sector). They are usually Charitable Trusts, founded for a social purpose. They reinvest their profits in the company or the community, and attempt to change lives for the better.
- They do, however, need to make a profit to compete in the market, to ensure their continued survival, to invest in their social or environmental aims and to reduce any dependency on public grants.
- The aims of private enterprise businesses include survival, profit maximisation, maximising shareholder value, maximising sales revenue, and maximising growth. Social enterprise businesses will seek to survive, make profit and wish to grow and in this sense they are not essentially different from private enterprise businesses.

- Many commercial businesses would consider themselves to have social objectives, but social enterprises are distinctive because their social and/or environmental purpose is absolutely central to what they do - their profits are reinvested to sustain and further their mission for positive change.
- An ethical business is not the same as a social enterprise. An ethical business tries to achieve its financial goals while minimising any negative impact on society or the environment. A social enterprise's main purpose is to fulfil its social and/or environmental goals.

Candidates may also compare with public enterprise organisations.

**Q.5 (a) Explain why entrepreneurs, like Dyson, are important to the success of business and the economy. [6]**

<b>Level 1</b>	1-2 marks	Candidate identifies one or two characteristics of entrepreneurs. Definition of entrepreneur.
<b>Level 2</b>	3-4 marks	Candidate explains importance of entrepreneurs to success of business and/or the economy.
<b>Level 3</b>	5-6 marks	Candidate fully explains importance of entrepreneurs to success of business and the economy.

Possible responses may include:

- Entrepreneurs tend to be single minded, prepared to work hard, passionate/determined/ambitious, have ability to organise production, are prepared to take risks and are innovative – possible use of examples of entrepreneurs to illustrate points.
- Entrepreneurs are important because they are innovative, they can provide better ways of doing things and can also lead to new business, thus increasing profit for businesses and their stakeholders.
- Entrepreneurs have the vision and the willingness to take risks which drive business forward.
- Entrepreneurs help the economy by creating new jobs.
- Help to boost the economy by providing new products.
- Without entrepreneurs, our economy would not benefit from the boost they give from added business and ideas and wealth creation.
- Increasing exports - helps balance of payments
- Government benefiting from taxation.

- (b) **Consider the view that the secondary sector is the most important sector of the UK economy or Candidate attempts to explain the importance of the Sectors to the UK economy.** [10]

- Level 1** 1-3 marks Candidate can describe the three sectors of business activity or attempts to explain the importance of the sectors to the UK economy. The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas.
- Level 2** 4-6 marks Candidate explains the importance of the secondary sector to the UK economy. The candidate can organise relevant information and express moderately complex ideas clearly in a coherent manner. There is good use of specialist terminology. Occasional errors in grammar, punctuation and spelling occur but they are not sufficient to suggest a weakness in these areas.
- Level 3** 7-10 marks Candidate fully evaluates the importance of the secondary sector to the UK economy. The candidate can organise effectively relevant information and express complex ideas extremely clearly and fluently. There is very good use of specialist terminology. There are few, if any, errors of grammar, punctuation and spelling.

Candidates will need to engage with the debate and to do this effectively they will need to define/outline at least two of the main sectors of business activity.

Business activity can be conveniently divided into:

- Primary – extractive - produces raw materials, e.g. iron ore (that goes into making steel) and oil (that makes petrol, plastics, etc), as well as producing final products like fish and oranges.
- Secondary - manufacturing and construction industries make, build and assemble products.
- Tertiary - services give value to people but are not physical goods. Services are sometimes classified as direct services (to people), e.g. the police, hairdressing, etc. and commercial services (to business), e.g. business insurance, financial services, etc.



Approaches to this question will vary and there is no correct answer.

- In terms of employment the tertiary sector is by far the most important in the UK employing approximately 80% of those who are in employment. The secondary sector accounts for 18% with 2% in the primary sector. A similar picture emerges if we look at the contribution each sector makes to the value of our output (GDP).
- Many entrepreneurs believe that that manufacturing in the secondary sector creates wealth when compared to the service sector. However, the secondary sector in the UK and the manufacturing sector in particular have rapidly declined due in part to competition from cheap foreign imports from developing countries. Cannot compete with low labour costs in China and India.
- The key issue for the secondary sector is that of ensuring they can turn raw materials, or semi-finished components, into something that consumers will pay for. The problem is about maintaining competitiveness by adopting suitable strategies and investing in high tech industry (computers, telecommunications, aerospace) where there is a significant emphasis on research and development.
- Within the secondary sector, perhaps as the article suggests, there needs to be a greater emphasis on hi-tech manufacturing industries and the UK needs to build on its success in this area so that it can manufacture goods for export and earns money for the UK in the future. Important in helping UK's balance of payments.
- The tertiary sector has grown considerably over the past twenty years and it can be argued that the tertiary sector is the most important even if the banking crisis and the recession have shown that an over dependence on financial services has not generated as much wealth for the UK as was supposed.
- Depends what we mean by 'important'. In some rural areas e.g. West and mid Wales, Scottish Highlands primary sector is crucial to the local economy. We also still get a great deal of food from the UK agricultural industry, even though numbers employed are very small.

## **BS2**

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### **Quality of written communication**

The QWC is assessed in question 3(e).

**Q.1 (a) Using the passage, explain two ways in which Mazuma's co-founders have attempted to differentiate their business from that of its competitors. [4]**

Level I 1-2 Candidate identifies one or two ways in which Mazuma's co-founders have attempted to differentiate themselves from their competitors.

Level II 3-4 Candidate explains one or two ways in which Mazuma's co-founders have attempted to differentiate themselves from their competitors.

Possible responses may include:

- The purple envelope acts as a USP and distinguishes them from the stationery/packaging of its competitors.
- They provide a 'hassle free/'no fuss' service which enables their customers to focus on other aspects of their own businesses.
- They specifically target small businesses. Comparison with others who target large organisations.

**(b) Identify two external stakeholders who might have an interest in the accounts of a business and explain why each one might be interested. [6]**

Level I (1-2) Candidate identifies one or two external stakeholders.

Level II (3-4) Candidate attempts to explain why one or two external stakeholders who might have an interest in the accounts of a business.

Level III (5-6) Candidate fully explains why two external stakeholders might have an interest in the accounts of a business.

Possible responses may include:

- Potential investors in the business who might want to check the level of risk that they might be taking.
- Banks who may be requested to lend money to a business and wish to assess the ability of the business to repay the loan.
- Suppliers who sell on a credit basis may wish to check the financial strength of any of their customers.
- Customers who may want to know if a business is stable, especially if they have a warranty on a high cost item.
- Competitors - to assess the strength of their rivals.
- Government/tax agency.
- Franchise - looking to invest/potential franchisees.
- Pressure groups.
- Local community.

Not:

- employees
- founders
- shareholders/owners
- managers

**Q.2 (a) Calculate the following for the Profit and Loss Account for 2010. [4]**

Gross Profit -	£693,720
Marketing -	£3,800
Total Expenses -	£495,310
Net Profit -	£198,410

Use Own Figure Rule.

**(b) (i) What is meant by *benchmarking*? [2]**

- Imitating the standards of an established leader (x1) in quality and attempting to better them.(x1)
- Setting competitive performance standards (x1) against which performance can be measured.(x1)

**(ii) Explain how Lucy would carry out the benchmarking exercise. [4]**

Level I (1-2) Candidate identifies one or two steps Lucy might have taken when carrying out her benchmarking exercise.

Level II (3-4) Candidate fully summarises what steps Lucy might have taken when carrying out her benchmarking exercise.

Possible responses may include:

- Identify what she intends to benchmark - for example, in this case she focuses on HRM issues.
- Choose a company (or companies) to set the benchmark against - ask customers or trade journalists: visit other garden centres that are doing well.
- Gather information from a variety of sources - trade association reports, customers, suppliers, Internet - and analyse it.
- Use the information and implement the findings. This will require funding and monitoring.
- Monitor the impact of the implementation and evaluate the degree of success.

**(c) What are quality circles and how might they benefit Robertson's Garden Centre? [6]**

- Level I (1-2) Candidate describes what is meant by quality circles.
- Level II (3-4) Candidate describes what is meant by quality circles and attempts to analyse how they might benefit Robertson's Garden Centre.
- Level III (5-6) Candidate describes what is meant by quality circles and fully analyses how they might benefit Robertson's Garden Centre.

Possible responses may include:

- A quality circle is a discussion group which meets regularly to identify quality problems, consider alternative solutions and recommend a suitable outcome to management. Employees from a variety of levels of the organisation. A voluntary group.
- They may improve current practices within the business, making it more efficient.
- Introduce ideas that will save the company money or improve sales.
- Motivates workers by involving them directly in improving the nature of the work they are doing.

**(d) Evaluate the view that non-financial methods are far more effective than financial methods for motivating employees. [10]**

- Level I (1-4) Candidate describes a number of financial and non-financial methods of motivation.
- Level II (5-7) Candidate attempts to explain the effectiveness of some of the methods identified and may attempt some evaluation.
- Level III (8-10) Candidate fully evaluates the view that non-financial methods of motivation are far more effective than financial methods of motivation.

Possible responses may include:

- Financial - Piece rates, bonuses, commission, fringe benefits, profit sharing, share ownership.
- Non-financial - Redesigning jobs: For example by introducing job enrichment, job enlargement, job rotation, quality control circles, employee participation groups, team working, training.

Financial methods:

- Workers like to earn more money as this may improve their standard of living.
- In many cases they motivate workers to reach a certain target - otherwise why do businesses continue to use them.
- For some workers, money is a major motivator.
- Share ownership may also bring with it a sense of belonging and motivate workers to contribute more to the organisation.

However:

- Some schemes can cause resentment, especially when bonuses are linked to teams. Some workers become de-motivated because they feel that they are carrying some of their colleagues.
- When targets are not reached the workforce may be resentful, especially if the reasons for not hitting the targets are out of their control e.g. bad management, late suppliers, etc.
- Jealousy - some workers are de-motivated by the financial success of colleagues. Banking bonuses are a good example.
- Some argue that financial incentives tend to only have a short term impact on motivation. Once workers become used to a certain standard of living, they want a better one and seek better financial incentives.

Non-financial methods:

- Job enlargement - prevents boredom, and encourages employees satisfaction with their work as they are completing an entire process.
- Job rotation - may motivate as it encourages workers to use a variety of skills and gain experience which may lead to promotion.
- Job enrichment - gives employees greater responsibility and provides a challenge which motivates some employees.

However:

- Some employees do not want or like change and resent any form of job re-design.
- Some employees will expect extra pay for doing more work and would not be motivated to undertake new tasks and responsibilities.

NB. Credit should be given to candidates who link their arguments to those of the motivational theorists that they have studied.

**Q.3 (a) Explain what is meant by the phrase: '*Innocent's products have high value added*'. [4]**

Level I (1-2) Candidate demonstrates a basic understanding of the concept of value added.

Level II (3-4) Candidate demonstrates a sound understanding of the concept of added value. Must be applied to Innocent Drinks for 4 marks.

- Innocent adds value to the raw materials it uses in the production process.
- Added value is found in the difference between the cost of purchasing raw materials and the price at which the finished foods are sold for.
- Innocent processes their ingredients (fruit, vegetables, yoghurt, etc.) packages them - adding value at each stage.
- Formula: Selling price - Bought-in goods and services = value added.

**(b) With the use of examples, distinguish between 'above-the-line' and 'below-the-line' methods of promotion. [4]**

Level I (1-2) Candidate correctly identifies above and/or below the line methods.

Level II (3-4) Candidate distinguishes between above and below the line methods.

Possible responses may include:

- 
- Above the line methods - Television, newspapers, magazines, cinema, radio, posters and billboards and the Internet.
- Below the line methods - Direct mailing, exhibitions and trade fairs, sales promotions, branding, merchandising, packaging, personal selling and public relations (PR).
- Above the line promotion is through independent media and allows a business to reach a wide audience easily.
- Below the line promotion takes place via methods over which firms have some degree of control and allows businesses to aim their products at customers they know are interested in their products or services.

**(c) Explain *three* objectives that Innocent Drinks would hope to achieve when promoting its products. [6]**

Possible responses may include:

*One mark for identification plus one for development.*

- To increase sales - to increase the revenue of the business by obtaining new customers and retaining existing ones. This will satisfy the shareholders and create retained profit for reinvestment into the business.
- Raise awareness - some potential customers may not have heard of their products and some existing customers may be unaware of new products that Innocent has introduced.
- To target specific groups - aiming their promotion at specific sub-groups in order to encourage sales of particular products. For example, targeting children with the range of products that they have designed for younger customers.
- To try and beat the competition - they will attempt to try and persuade customers to switch to purchasing Innocent's products and thereby increase their market share.
- To develop/improve the image of the company - this will raise the brand awareness and give people confidence in the company's products. Corporate advertising.
- To reassure consumers after the products have been purchased - this attempts to build confidence in the product hoping that more will then be purchased at a later date.

**(d) Analyse the factors which Innocent Drinks should take into account when deciding how to package its products. [8]**

- Level I (1-3) Candidate briefly describes factors Innocent Drinks should take into account when deciding upon how to package its products.
- Level II (4-6) Candidate attempts to explain factors Innocent Drinks should take into account when deciding upon how to package its products.
- Level III (7-8) Candidate fully analyses factors Innocent Drinks should take into account when deciding upon how to package its products.

Possible responses may include:

- Design - Packaging for Innocent's products should be eye catching. It should help the consumer distinguish them from other products. Should be consistent with the brand image. Colour may be important.
- Convenience - Consumers must be able to open the products easily in order to access the contents. Must not be too bulky as this will add to distribution costs and may deter customers.
- Protection - The contents must be well protected and not easily damaged as this will be a problem for both distributors and customers. This will also be costly for Innocent and may lose customers if the foodstuffs are poorly protected. Storage. Needs to maintain freshness.
- Information - Customers now require to be fully informed about the ingredients that Innocent use in their products that they purchase. This is also required by law and all legislation must be complied with. The sources of Innocent's raw materials are also increasingly important for ethical customers.
- Environmental factors - Innocent's consumers tend to be environmentally aware and recyclable materials are used when possible. Also manufacturers are increasingly coming under pressure to reduce waste in relation to packaging.
- Cost of materials to make the packaging e.g. comparing cardboard and plastics.

*NB. Candidates who recognise the importance of packaging to Innocent's overall marketing should be credited. Consumers tend to link the quality and design of a product's packaging with the quality of the product itself.*



**(e) To what extent might the democratic leadership style adopted by Innocent Drinks be more beneficial to the organisation when compared with other leadership styles? [12]**

Level I (1-4) Candidate briefly outlines the key features of a democratic leadership style and/or other leadership styles.

The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas.

Level II (5-8) Candidate attempts to explain why a democratic leadership style as opposed to another leadership style may be beneficial to Innocent Drinks and may attempt some evaluation.

The candidate can organise relevant information and express moderately complex ideas clearly in a coherent manner. There is good use of specialist terminology. Occasional errors in grammar, punctuation and spelling occur but these are not sufficient to suggest a weakness in these areas.

Level III (9-12) Candidate fully evaluates why the democratic leadership style adopted by Innocent Drinks might be more beneficial to the organisation when compared with other types of management styles.

The candidate can organise effectively relevant information and express complex ideas extremely clearly and fluently. There is very good use of specialist terminology. There are few, if any, errors of grammar, punctuation and spelling.

Possible responses may include:

- Democratic leadership styles encourage participation by employees in the decision making process (*...we love making sure that everyone feels a part of Innocent, where the business is going and is involved in making decisions about what we do.*)
- A democratic leader delegates a great deal, discusses issues, acts upon advice and explains the reasons for decisions.
- Democratic leadership means running a business or a department on the basis of decisions agreed among the majority.
- Can be persuasive - leader makes a decision and then persuades others in the organisation that it is a good idea.
- Can be consultative - leader consults others prior to making a decision and takes account of their views.
- Good communication skills are required to lead democratically. (*We love talking...*)

Possible benefits:

- Research suggests that better decisions are made as managers are able to utilise the experience and knowledge of those working in the organisation. They can adopt the ideas of a whole variety of employees.
- Employees involved with the decision making process are likely to be more highly motivated and are more likely to accept the decisions that are made. Motivated staff are likely to be more productive, have lower absenteeism and be more committed to their work.
- Employees appear to trust democratic leaders and are more willing to volunteer new and creative ideas. (*We are so happy that we have offices brimming with smoothie experts...*)

However:

- Democratic decision making may take a lot longer to make as lengthy consultation may take place.
- Democratic leadership may not be helpful if Innocent were to find itself in a crisis, when swift autocratic decision making may be required.

Problems with other management styles:

- Autocratic - employees are often dissatisfied with the leaders and cohesion suffers as a result. Motivation tends to be poor. Lack of consultation means that creativity is stifled and good ideas may be passed over.
- Paternalistic - although paternalistic leaders do tend to have greater concern for the welfare of their employees, they do not allow subordinates involvement in decision making.
- Laissez-faire - although employees do carry out activities freely within broad limits there tends to be a lack of guidance and direction. This can result in low productivity as some employees lack the incentive to work hard. Communication tends to be less structured and the benefits of good communication between employees may be lost.
- Bureaucratic - decision making is stifled by paperwork and excessive checking and re-checking of decisions and outcomes. The leader manages "by the book". Effective if employees performing routine tasks but employees lose interest in their work and only do what is expected of them.

## **BS3**

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In addition, candidates will be assessed on their Quality of Written Communication in questions 4 and 5.

**Q.1 Explain the key factors that have made Ryanair a successful business [10]**

**Level 1** 1-3 marks The candidate identifies some of the key factors that have made Ryanair successful.

**Level 2** 4-6 marks The candidate explains some of the key factors that have made Ryanair successful.

**Level 3** 7-10 marks The candidate fully explains several key factors that have made Ryanair successful.

Responses might include the following:

**Deregulation:** the EU Open Skies policy allowed Ryanair to compete freely with other airlines.

**Price:** Ryanair's fares are amongst the lowest in the business and passengers have shown that they are willing to put up with "no frills" if it means a cheap flight.

Ryanair has a pricing policy which means that the first seats sold are cheap, the next lot of seats sold are more expensive and so on. This policy encourages passengers to book early, which improves Ryanair's cash flow, and also guarantees that the planes are nearly always full. Those booking last pay higher prices.

At popular times of the year, Ryanair will raise its prices to maximise profit since it can still guarantee to fill its planes, even at these higher prices.

Ryanair raises a lot of extra money by charging for 'extras' such as luggage, food and drink, priority booking, etc.

**Capacity:** as a result of its low fares, Ryanair's planes are nearly always full to capacity, this makes them more profitable.

**A large number of destinations:** Ryanair flies to a large number of destinations within Europe – clearly the more destinations that they cover the more passengers they will carry.

**Service:** although Ryanair is 'no frills' it does have a fleet of modern planes which offer a reliable service.

Ryanair has a very good record for being on time.

**Motivated Employees:** Ryanair's employees have shares in the business and therefore are keen to see it do well.

**Website:** direct booking by customers means that Ryanair's overheads are kept low.

**Marketing:** Ryanair uses comparative advertising attacking other airlines for their high charges.

Ryanair also uses eye-catching and even offensive adverts in order to grab attention. Sometimes the scandal that these adverts provoke result in a lot of free publicity.

A public limited company so could raise more finance.

Takeover of Buzz – leading to economies of scale.

**Q.2 Explain how an airline, such as Ryanair, can be affected by political, legal and environmental factors [12]**

- Level 1** 1-4 marks The candidate demonstrates some understanding of political/legal/environmental factors that could affect an airline.
- Level 2** 5-8 marks The candidate demonstrates good understanding of political, legal and environmental factors that could affect an airline.
- Level 3** 9-12 marks The candidate demonstrates excellent understanding of the political, legal and environmental factors that that could affect an airline.

Answers might refer to the following:

Political:

taxation, e.g. the fuel surcharge can affect their costs but Ryanair turned this into an opportunity by not passing on the cost to its customers.

terrorism – Ryanair, along with other airlines, suffered in the wake of 9/11.

Government policy regarding the expansion of airports.

Legal:

Health and safety regulations are very important in the airline industry.

Consumer protection legislation needs to be abided by.

Competition law has often benefited Ryanair as they have been fighting monopolies.

The OFT is investigating Ryanair's shareholding in Aer Lingus.

HR law.

Laws relating to advertising standards.

Environmental:

Aviation fuel has a high carbon-footprint – some restrictions may be introduced.

Airports are unpopular with environmentalists – it may be difficult to carry on expanding.

Natural Disasters, such as the eruption of a volcano can result in restrictions on flying.

Activities of pressure groups.

Any other valid response.

**Q.3 Outline Ryanair's marketing strategy and consider the view that it demonstrates a conflict between ethical responsibility and profitability. [10]**

- |                |            |  |
|----------------|------------|--|
| <b>Level 1</b> | 1-3 marks  | The candidate outlines Ryanair's marketing strategy and the conflict between ethical responsibility and profitability  |
| <b>Level 2</b> | 4-6 marks  | The candidate outlines Ryanair's marketing strategy and makes a meaningful analysis/evaluation of the conflict between ethical responsibility and profitability                        |
| <b>Level 3</b> | 7-10 marks | The candidate fully outlines Ryanair's marketing strategy and gives a detailed and well-balanced analysis/ evaluation of the conflict between ethical responsibility and profitability |

Responses might include the following:

Marketing involves the four elements: product (or in this case service), price, promotion and place.

They offer a very basic service (no frills). There is not a great deal of conflict here between ethics and profitability since customers know what they are getting and have the choice of using other airlines who charge a bit more but offer more 'frills'.

Their prices are generally very cheap. There may be an ethical problem here since there maybe a number of hidden extras.

Their promotion strategy, particularly their above-the-line advertising is often provocative and even offensive. There is certainly an issue here about ethical responsibility. It could be argued, as the judge in the BA case agreed, that comparative advertising is justified. However, when this becomes offensive, the resulting publicity may result in greater profits, but it is not ethically responsible. As is also the case with adverts containing "specific sexual content".

Place, includes both the wide number of destinations that they fly to and the convenience of the internet for booking fares. There does not seem to be any conflict here.

However, despite the fact that many people find some of Ryanair's advertising unethical and even offensive, the strategy seems to work. The airline has continued to grow and make profits. It seems that people are not too bothered as long as they can take advantage of cheap fares.

Michael O'Leary has been reported as saying that "we don't want to win people's hearts and minds we just want to get their bums on our seats".

**Q.4 Analyse and evaluate the financial performance of Ryanair**

**[14]**

- Level 1**    1-4 marks    The candidate attempts some analyse/evaluate the financial performance of Ryanair. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
- Level 2**    5-9 marks    The candidate makes a reasonable attempt to analyse/evaluate the financial performance of Ryanair. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
- Level 3**    10-14 marks    The candidate makes a detailed and well-balanced analysis and evaluation of the financial performance of Ryanair. Information is well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

	<b>2010</b>	<b>2009</b>
Gross Profit Margin	1203/2988x100=40.3%	877/2942x100=29.8 %
Net Profit Margin	402/2988x100=13.5%	145/2942x100=4.9%
ROCE (fixed + current assets)	402/7563x100=5.32%	145/6388x100=2.27 %
ROCE (shareholders' funds + long term liabilities)	402/6014x100=6.68 %	145/5009x100 = 2.89%
RONA	14.1	5.9 / 6.0
Current ratio	3063/1549=1.98:1	2543/1379 = 1.84:1
Acid test ratio	2980/1549=1.92:1	2450/1379 = 1.78:1
Gearing (long term liabilities/shareholders funds)	3165/2849x100= 111.1%	2584/2425x100=106.6 %
Gearing (long-term liabilities/shareholders funds + long-term liabilities)	3165/6014x100= 52.6%	2584/5009x100=51.6 %
Debtor days	5.37	5.21

The gross profit margin has increased substantially and at just over 40% is good. The net profit margin has also increased substantially and is also good.

The return on capital employed has more than doubled but still appears to be low, but this is probably because this industry requires high levels of capital expenditure on aircraft. In the light of this observation it is probably acceptable, especially when interest rates are historically low.

The liquidity ratios are exceptionally high in both years, especially the acid test ratio. However, due to the nature of the industry, there are no raw material stocks. It would appear that Ryanair is cash rich but it may require this money to purchase new aircraft as well as being able to pay the shareholders the proposed dividend.

The gearing ratio at around 50% using the more common of the two ratios is acceptable, neither too high nor too low.

Overall the business seems to be in a much healthier position than it was the previous year and is being run on a sound financial basis.

**Q.5 Discuss the view that Ryanair should now seek to become a global business rather than operating mainly in Europe. [14]**

<b>Level 1</b>	1-4 marks	The candidate makes some attempt to analyse/evaluate the view that Ryanair's should now seek to become a global business. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
<b>Level 2</b>	5-9 marks	The candidate makes a reasonable attempt to analyse/evaluate the view that Ryanair should now seek to become a global business. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/ vocabulary with some errors in SPG, but these are not intrusive.
<b>Level 3</b>	10-14 marks	The candidate makes a detailed and well balanced analysis and evaluation the view that Ryanair should now seek to become a global business. Information is well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.

Responses might include the following:

**Arguments in favour of becoming a global business:**

Increased turnover may lead to increased profits.

It is able to negotiate better prices on the things that it purchases including aircraft and fuel.

It may benefit from other economies of scale, e.g., marketing and managerial economies.

By operating in many countries it has the option of moving elsewhere should it be unhappy with a particular airport or if it is offered a better deal by another airport.

By being global it has more negotiating power with governments.

**Arguments against becoming a global business:**

It may face greater competition and so reduce its profit margin.

It may not have the right fleet of aircraft and so may have to borrow a great deal of money to make the necessary investment.

It may not be able to get landing rights in certain countries/airports.

It may face diseconomies of scale as the company becomes too big to manage.

It will be dealing with different customers who have different expectations, e.g. business class customers.

The no-frills policy may not work on long-haul flights as customers expect more leg-room, decent meals etc.

**Conclusion**

It may be a good idea but it would probably be advisable to start on a small scale or takeover or merge with another airline that already has the necessary experience and equipment.



## **GENERAL MARKING GUIDANCE**

It should be remembered that the candidates are writing under examination conditions and credit should be given for what the candidate writes rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for the 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.

### **Levels of Response**

Questions are awarded marks on the basis of the levels of response. The purpose of this is to award the so-called higher level skills, particularly of analysis and evaluation. In practice, the good Business Studies candidate is likely to demonstrate a good grasp of the information presented to him/her, he/she will be able to weigh this up in the light of his/her theoretical understanding of the subject and will be able to suggest appropriate strategies to deal with the situation. Candidates who have a deficiency in their theoretical understanding or who are unable to analyse properly a situation, are unlikely to be able to synthesise or evaluate in a meaningful way.

In marking scripts reference should be made to the relevant part of the mark scheme and the candidate should be awarded a mark that corresponds to the highest level that he/she has demonstrated.

### **Quality of written communication**

The QWC is assessed in questions 5, 6 and 7.

## SECTION A

**Q.1 Explain the possible advantages and disadvantages to a business of having a marketing plan. [6]**

Level 1	1-2	The candidate demonstrates some understanding of the advantages/disadvantages of a marketing plan.
Level 2	3-4	The candidate demonstrates good understanding of the advantages/disadvantages of a marketing plan.
Level 3	5-6	The candidate demonstrates excellent understanding of the advantages/disadvantages of a marketing plan.

Explanation of the content of a marketing plan.

Advantages:

- The plan forces a business to think about the future.
- It will help make sure that all of the employees of the company act in unison - all should be aware of marketing objectives.
- It will improve co-ordination and takes an holistic view of a business's marketing activities and helps to ensure that all departments work together.
- It will help ensure that the business achieves its objectives.
- It will help to ensure that resources are not wasted on unprofitable activities.
- Employees will be more informed and perhaps better motivated.
- A marketing plan should make banks feel more confident about offering loans to a firm.

Any other valid points.

Disadvantages:

- The plan itself is costly and time-consuming to devise.
- If the plan is not well drawn-up or includes too much information it may do more harm than good as it fails to help the business achieve its objectives.
- A bad plan can de-motivate employees who have no faith in it.
- Businesses are often organised into departments and the success of the marketing plan will depend upon each being prepared to put aside their own goals to satisfy consumers' needs.

Any other valid points.

**Q.2 (a) Calculate the total value of the contribution if Highlights Ltd decides to accept the new order. (Show your workings.) [4]**

$$\begin{aligned}\text{Contribution per unit} &= \text{Selling Price} - \text{Variable Cost} \\ &= £8.50 - £6 \\ &= £2.50 \text{ per unit} \quad (2 \text{ marks})\end{aligned}$$

$$\begin{aligned}\text{Total contribution} &= £2.50 \times 4000 \\ &= £10,000 \quad (2 \text{ marks})\end{aligned}$$

*Alternatively:*

$$\begin{aligned}\text{total contribution} &= \text{total revenue} - \text{total variable cost} \\ &= (£8.50 \times 4000) - (£6 \times 4000) \quad (2 \text{ marks}) \\ &= £34,000 - £24,000 \\ &= £10,000 \quad (2 \text{ marks})\end{aligned}$$

(4 marks for £10,000 without workings)

**(b) Discuss the factors which Highlights Ltd should consider before deciding whether or not to accept this order. [6]**

- |         |     |  |
|---------|-----|--|
| Level 1 | 1-2 | The candidate identifies one or two factors that should be considered before accepting the order.          |
| Level 2 | 3-4 | The candidate discusses one or two factors that should be considered before accepting the order.           |
| Level 3 | 5-6 | The candidate gives a full discussion of the factors that should be considered before accepting the order. |

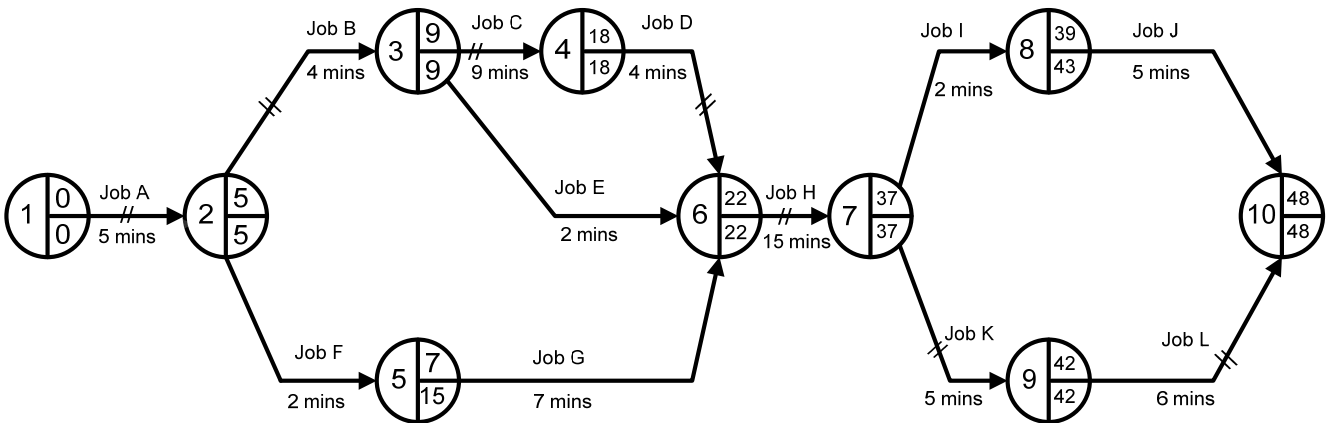
In general, if an order covers all of the variable costs and makes some contribution to overheads it can be accepted.

However, it should not be accepted if there are other orders available that allow a greater contribution to be made, especially if these other orders cover all of the overheads and profit.

If there is spare capacity in the factory it may be reasonable to accept the order in order to keep workers and machines occupied.

If it is a new customer who may be able to offer repeat business in the future it may well be worth taking the order. Similarly if the company is trying to break into an overseas market it may be willing to accept the order.

**Q.3 (a) Fill in the *earliest start times* and *latest finishing times* on the diagram on page 4. [5]**



1 mark for each two correct ESTs/LSTs

- (b) Mark the critical path on the diagram on page 4. [1]**
- (c) Discuss the usefulness of critical path analysis to a company such as A J Moore Ltd. [8]**

Level 1	1-2	The candidate suggests some limited ideas regarding the usefulness of critical path analysis.
Level 2	3-5	The candidate suggests more detailed and valid ideas regarding the usefulness of critical path analysis.
Level 3	6-8	The candidate produces a well-balanced discussion of the usefulness of critical path analysis.

CPA has a number of benefits for a business, including the fact that producing a network can help a business to become more efficient by saving time and materials. It can ensure that a business meets critical deadlines and so does not let its customers down.

It can help the business make more accurate decisions as it will have to think clearly about the time that each task takes and the best sequence in which to work. It can speed up the overall time that a project takes as many processes can be carried out simultaneously and there should be less waiting time involved.

By sequencing production a business can make sure that raw material stocks arrive when and where needed and so be part of a JIT system. This cuts down on the costs of carrying inventory.

On the other hand CPA can be costly to carry out and it does not guarantee success since time estimates may be wrong, or unexpected events occur which mean that the original plan needs to be adapted.

When used appropriately it can have significant benefits for a business.

**Q.4 Consider the view that there are advantages and disadvantages to both employers and employees from having a national minimum wage. [10]**

Level 1	1-3	The candidate attempts to discuss some of the advantages/disadvantages of the minimum wage.
Level 2	4-6	The candidate makes a reasonable attempt to discuss the advantages/disadvantages of the minimum wage to employers/employees.
Level 3	7-10	The candidate provides a well-balanced discussion of the advantages and disadvantages of the minimum wage to employers and employees.

From the point of view of employers:

The minimum wage might represent an increase in costs for some employers, particularly those working in labour-intensive industries where the workforce is relatively unskilled. At the minimum wage there is likely to be a surplus of labour and the equilibrium wage is below that of the minimum wage. (This could be illustrated by a supply and demand diagram).

Employers might respond to this situation by reducing the numbers of workers that they employ and thus keep their total wage bill the same. They may also recruit more part-time staff who have fewer employment rights and are thus cheaper to employ. In extreme cases the illegal use of labour may occur at below minimum wage levels. They may also be tempted to use younger workers whose minimum wage levels are set below those of adult workers.

Good employers, on the other hand, may benefit from the minimum wage because they will not be undercut by more unscrupulous businesses paying lower wages. It also makes their job easier as the pay rates are set by the Low Pay Commission rather than through negotiations with unions, which might lead to disputes.

Other employees may ask for pay increases to maintain differentials.

From the point of view of employees:

One of the main reasons for introducing the minimum wage was to keep low paid workers out of poverty. This is only true for those workers in relatively unskilled employment who otherwise would have been paid below the minimum. The majority of workers in most industries would have been paid more than the minimum anyway due to the laws of supply and demand.

Since low paid jobs are often done by women, for example in the catering industry, the minimum wage has the effect of reducing inequality.

On the other hand some workers are likely to find themselves unable to find work because employers have cut back on employment and others may only be able to find part-time work. There may also have been a negative effect on job security.

Some jobs may be moved abroad where wages are lower.

## SECTION B

The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	<p>Candidate makes few, if any, relevant points with no real application. There may be an attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated.</p> <p>Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.</p>
Level 2	6-10	<p>Candidate makes some valid points using relevant business principles, concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated.</p> <p>Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.</p>
Level 3	11-15	<p>Candidate shows good knowledge and understanding of relevant business principles, concepts and theories. There is good application and analysis with sound logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions.</p> <p>Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.</p>
Level 4	16-20	<p>Candidate demonstrates excellent knowledge, understanding, analysis, and evaluation using business principles, concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer.</p> <p>Information is very well organised and the form and style of communication is highly appropriate. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.</p>

**Q.5 'Without substantial expenditure on research and development few businesses are likely to be successful.' Discuss. [20]**

Answers might include:

A definition of research and development, i.e. the investigation and discovery of new ideas in order to solve a problem or create an opportunity and subsequently changing ideas into products.

R & D may be used to create new products, improve quality, reduce costs, develop new materials and reduce environmental damage.

R & D can give a business a competitive edge and make production processes more efficient. It can improve a business's image and improve the motivation of staff. It is likely to bring benefits to consumers, which in turn will improve sales and may allow the business to charge a premium price (skimming).

However, expenditure on R & D can be very expensive and can involve a considerable amount of risk. For example, millions can be spent on developing a new drug, which subsequently does not get approval. Because of the time it takes to develop new products there is a possibility that they are out-of-date before they are released onto the market.

It can take a long time from the beginning of research until the final product is launched. Many businesses have put a great deal of effort into shortening the time taken to get new products to market, e.g. new models of cars.

Due to all of these factors many UK businesses are reluctant to spend a great deal on R & D. The majority of expenditure is restricted to certain industries such as pharmaceuticals. For these businesses R & D expenditure is an essential component of success, but in other industries it maybe less important.

Candidates may explore the view that substantial expenditure in R & D is one of a number of factors that may contribute to business success and may consider others e.g. marketing, impact of external factors, etc.

**Q.6 “Since businesses are able to provide consumers with the goods and services they require, there is no need for government involvement in the economy.” To what extent do you agree with this statement? [20]**

Answers might include:

Arguments against statement/arguments for government involvement:

Mention of the role of the state in providing public goods, which, because they are non-consumable and the exclusion principle does not apply, cannot be provided by the private sector, e.g., street lighting and lighthouses.

Merit goods which the market would not produce in sufficient quantities or at a price that many people could afford, e.g., health and education, also such things as refuse disposal and the building of roads, all of which are most efficiently paid for from taxation revenues.

Some demerit goods need to be discouraged which requires the government to intervene in the economy, either to ban products or to make them more expensive through the use of excise duties.

Involvement to achieve a more equitable distribution of income e.g. via taxation and state benefits.

Setting minimum wages to help ensure people achieve a minimum standard of living.

Some industries are natural monopolies, e.g. railways and water supply and they benefit from economies of scale, which can be passed onto the consumer. These industries need **either** to be provided by **or** regulated by the government.

Wherever there is a degree of monopoly power, private industries need to be regulated in order to protect consumers. Consumers also need protection against other unfair or illegal practices, e.g., weights and measures, health and safety, etc.

Macroeconomic arguments – involvement to achieve macroeconomic objectives

Arguments for statement/arguments against government involvement

State run industries tend to be inefficient as they are not driven by the profit motive.

Private companies respond to consumer demand, since, by giving people what they want the businesses are likely to increase their profits. State run enterprises tend to be product orientated and limit consumer choice.

The less government involvement the more the market is free to work and decisions about what to produce for whom and in what quantities is left to market forces.

Often there is under-investment in state run industries.

There may be political interference which can affect the efficient running of the businesses.

Candidates are expected to draw valid conclusions and should be rewarded for referring to specific cases and the effects on consumers. Generally speaking, most commentators believe that the private sector is more efficient at producing goods and services, other than merit and public goods, but that it needs to be regulated in order to protect consumers, especially where there is a risk of monopoly power



**Q.7 'The decision by the British government not to join the European Single Currency (the euro) in 2002 was a serious mistake.'**  
**Evaluate this statement.**

**[20]**

Answers might include:

Arguments in favour of the statement:

Had the UK joined the euro UK businesses would have benefited for a number of reasons:

There would have been no currency conversion costs involved in exchanging currencies.

There would have been no currency fluctuations between the UK and other Eurozone countries and so it would have been much easier to plan, and losses caused by such fluctuations would have been avoided.

Prices would have been more transparent which may have been of benefit to UK consumers importing from Eurozone countries and also have helped those UK exporters who were able to undercut their foreign competitors.

Arguments against the statement:

The UK government would have lost much of its control over the economy since it (or rather the Bank of England) would no longer have had the power to control interest rates.

Many observers fear the loss of sovereignty that closer European integration seems to entail.

In practice, as events have turned out, the pound has weakened against the euro to the detriment of many UK citizens, but to the potential advantage of exporters.

Closer integration with other EU economies might have been beneficial to the UK economy since over 50% of our trade is already with them. We are in deficit with most EU countries and the easier trade conditions that entry to the euro would have provided might have benefited our export industries.

On balance it is difficult to decide whether the arguments in favour of entry in 2002 outweigh the arguments against. Some industries and individuals would have benefited others would not.

Recent events in the Eurozone should be credited.



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