



GCE A LEVEL MARKING SCHEME

AUTUMN 2021

**A LEVEL
BUSINESS - COMPONENT 2
A510U20-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2021 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 A LEVEL BUSINESS - COMPONENT 2

AUTUMN 2021 MARK SCHEME

Q.		Total
1 (a)	<p>Outline what is meant by the term SMART objectives.</p> <p>AO1: 2 marks</p> <p>Award 1 mark for limited definition. Understanding may be superficial. Award 2 marks for detailed definition. Good understanding is shown.</p> <p>Indicative content:</p> <p>Objectives that are written using the SMART model should make them clearer and more meaningful to understand and achieve. (1)</p> <p>SMART objectives are more precise (1) than normal objectives, and are more quantifiable (1), therefore can be used more easily to monitor progress.</p> <p>SMART objectives also enable feedback and learning within the organisation, so that management can monitor achievement and make changes where necessary. (1)</p> <p>They should be Specific, Measurable, Achievable, Realistic and Time Limited. (1) (N.B Accept agreed). Only need 3 out of 5 for 1 mark.</p>	2

1 (b)	Explain the purpose of a vision statement for B&M.			[6]
Band	AO1	AO2	AO3	
	2 marks	2 marks	2 marks	
2	2 marks The candidate shows detailed and thorough knowledge of what a vision statement is and how it fits into a business.	2 marks Good application to B&M's vision statement. There is direct and clear reference to elements of B&M's vision statement.	2 marks Good explanation of the purpose of a vision statement to a business.	
	1	1 mark The candidate shows basic knowledge of what a vision statement is and how it fits into a business.	1 mark Limited application to B&M's vision statement. The response is mainly theoretical, with limited reference made to the context given.	1 mark Limited explanation of the purpose of a vision statement to a business.
0	0 marks No knowledge of vision statements is shown.	0 marks No application to the context of B&M is made.	0 marks No valid explanation	

Indicative content:

A vision statement is a description of what the business aims to achieve in the medium to long term and should provide a clear guide to senior management of the future direction of the business and help to direct their strategic decision making. They define the core values of the business and the direction in which it is heading.

The benefits a vision statement can bring are:

- It can give the business a clear identity and ethos.
- It can help in setting objectives and support the business strategy.
- It can focus senior managers on the tasks needed to achieve the vision.
- It communicates to employees how they can contribute, and it can improve employee engagement.
- It helps commit resources to achieving the vision.

Possible themes for application:

B&M's vision statement is very short and clear. It provides all stakeholders with a clear long-term goal that it wants to be the leading variety retailer.

It also identifies the market it is operating in as a 'variety retailer' to help identify its likely competitors and what they want to be 'number 1' of.

It clearly allows senior management to know what they are focussing on achieving but leaves the strategy of how to achieve this open. For example, does it want to be number 1 in terms of profit, size etc.

Q.		Total
2 (a)	<p>Outline the purpose of investment appraisal to a business.</p> <p>AO1: 2 marks</p> <p>Award 1 mark for limited definition. Understanding may be superficial. Award 2 marks for detailed definition. Good understanding is shown.</p> <p>Indicative content:</p> <p>Investment appraisal is a technique used to evaluate planned investment by a business and measure its planned financial value to the business.</p> <p>It covers several techniques of appraising an investment and uses quantitative data such as the cost of the investment and the predicted inflows it will generate. It will then mostly compare one investment opportunity against another to decide which offers the best overall value to the business.</p>	2

Q.		Total																																													
2 (b)	<p>Using the discounted cash flow method (DCF) of investment appraisal, calculate the net present value (NPV) of each machine.</p> <p>AO2: 4 marks</p> <p>Award 1 AO2 mark for each correct discounted cash flow calculation. (2) Award 1 AO2 mark for each correctly calculated net present value. (2)</p> <p>OFR applies.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 10%;">Year</th> <th style="width: 20%;">Machine A Net Cash Flow £</th> <th style="width: 10%;">DCF £</th> <th style="width: 20%;">Machine B Net Cash Flow £</th> <th style="width: 10%;">DCF £</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(120 000)</td> <td></td> <td>(95 000)</td> <td></td> </tr> <tr> <td>1</td> <td>20 000</td> <td>19 000</td> <td>30 000</td> <td>28 500</td> </tr> <tr> <td>2</td> <td>30 000</td> <td>27 000</td> <td>40 000</td> <td>36 000</td> </tr> <tr> <td>3</td> <td>45 000</td> <td>38 700</td> <td>40 000</td> <td>34 400</td> </tr> <tr> <td>4</td> <td>50 000</td> <td>41 000</td> <td>30 000</td> <td>24 600</td> </tr> <tr> <td>5</td> <td>60 000</td> <td>46 800</td> <td>30 000</td> <td>23 400</td> </tr> <tr> <td></td> <td></td> <td>172 500 (1)</td> <td></td> <td>146 900 (1)</td> </tr> <tr> <td></td> <td>-120 000</td> <td>52 500 (1)</td> <td>-95 000</td> <td>51 900 (1)</td> </tr> </tbody> </table>	Year	Machine A Net Cash Flow £	DCF £	Machine B Net Cash Flow £	DCF £	0	(120 000)		(95 000)		1	20 000	19 000	30 000	28 500	2	30 000	27 000	40 000	36 000	3	45 000	38 700	40 000	34 400	4	50 000	41 000	30 000	24 600	5	60 000	46 800	30 000	23 400			172 500 (1)		146 900 (1)		-120 000	52 500 (1)	-95 000	51 900 (1)	4
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2 (c)	Taking into account both quantitative and qualitative factors, assess which machine is the best option. Justify your choice. [4]	
Band	AO2	AO4
	2 marks	2 marks
2	2 marks Good application to the context is made. There is direct and clear reference to both quantitative and qualitative information.	2 marks Good evaluation of which is the best investment decision. There is reference to the data to support their decision. The response is likely to include an overall conclusion.
	1 mark Limited application to the context is given and the response is mainly theoretical. The response may focus on only quantitative or qualitative information.	1 mark Limited evaluation of which is the best investment decision. Unsupported and limited judgements are made and are often likely to be superficial.
0	0 marks No application to any of the data given in the context.	0 marks No judgement shown as to which machine they should purchase.

Indicative content:

On a quantitative basis, the best option is Machine A as it gives a higher net present value. Also, the expected cash flow for Machine A seems to be increasing whereas for Machine B it is at a relatively stagnant level, so Machine A could be more profitable further into the future.

On a qualitative basis, Machine B is likely to be easier to integrate into the business as it is continuing with the same products rather than new ones. However, to move the business forward and keep up with trends it could be better to invest in the machine that creates a variety of products.

Overall, it is likely to depend on the business' objectives as to which is the best investment, and the availability of capital to make the initial purchase.

3	To what extent do you agree with the view that it is not worthwhile for entrepreneurs to complete budgets and budget variance analysis? [6]		
Band	AO1	AO3	AO4
	1 mark	2 marks	3 marks
3			<p>3 marks Excellent evaluation of the usefulness of budgets and budget variances.</p> <p>Relevant judgements are made with qualifying statements used to build an argument.</p>
2		<p>2 marks Good analysis of the benefits and drawbacks of budgets and budget variances.</p> <p>The analysis will attempt to develop chains of argument.</p>	<p>2 marks Good evaluation of the usefulness of budgets and budget variances.</p> <p>The candidate makes partial judgements with some attempt to support their evaluation.</p>
1	<p>1 mark There is some knowledge shown of budgets and/or budget variances.</p>	<p>1 mark Limited analysis of the benefits and drawbacks of budgets and/or budget variances.</p> <p>The arguments are likely to be undeveloped.</p> <p>The explanation will be brief.</p>	<p>1 mark Limited evaluation of the usefulness of budgets and budget variances is made.</p> <p>Unsupported and limited judgements are made and are often likely to be superficial.</p>
0	<p>0 marks No knowledge of budgets and budget variances is shown.</p>	<p>0 marks No analysis is given.</p>	<p>0 marks No evaluation is given.</p>

Indicative content:

A budget is a financial plan for the future and variance analysis is checking actual outcomes against predicted outcomes.

Reasons for budgeting and budget variances being useful:

- To understand when money is coming in and out of the business to help avoid cash flow difficulties.
- Helps identify cost and profit centres within a business to set department targets for individual managers to focus on.
- It is important to conduct variance analysis to understand why variances have occurred, and solutions that could be introduced to maximise the favourable variances and minimise the adverse variances. Examples of these to support a candidate's argument may be given.
- Helps with the effective allocation of limited resources.
- Can help improve communication within a business and also overall financial control.
- Can be used to set and monitor the achievement of targets.

Reasons for budgeting and budget variances being less useful:

- Some factors are out of the business' control such as competitors and the economy. Therefore, the budget may not be able to predict this, making it less useful.
- Budgets are only a prediction of the future and if incorrect or unreliable research is used it will affect the accuracy of the budgets and therefore the budget variances.
- May exclude certain employees from the budgeting process and therefore may be less committed or less motivated.
- Unrealistic budgets can be demotivating.

Credit may be given to other relevant points.

Possible themes for evaluation:

- It is overall more useful to complete budgets and budget variances as it can assist with the planning and improvement of important elements of the business.
- It depends on a number of factors including:
 - The experience of the budget setter.
 - The stability of the market.
 - The amount of historical data available.
 - The extent to which budgets are used and adhered to within a business and the depth of the variance analysis completed.
 - Depends on the size of the business – they may have specialisation economies of scale and have an accountant to do the budgets for them.

4 (a)	Explain how two trends in the data in Table 1 could be useful to the senior managers of Just Eat. [4]	
Band	AO2	AO3
	2 marks	2 marks
2	2 marks Good use of the information in Table 1. The candidate makes clear reference to at least 2 pieces of information in Table 1.	2 marks Good explanation of the information given in Table 1. Explanation shows a clear understanding of how this data may be useful to senior managers of Just Eat.
	1 mark Limited use of the data in Table 1. The candidate's response is mainly theoretical with some reference made to some data in Table 1. The candidate may only use one piece of information from Table 1.	1 mark Limited explanation of the information given in Table 1. There is limited explanation of how the data in Table 1 could be useful to senior managers of Just Eat. Explanation is likely to be superficial and undeveloped.
0	0 marks No use made of the data in Table 1.	0 marks No explanation given of how managers could use the information in Table 1.

Indicative content:

Candidates may choose to focus on any two pieces of data from Table 1 and describe the trend.

Revenue is looking extremely healthy and has grown by 464% since 2013 which is useful to senior managers to analyse the success of the business and is a useful tool to measure growth.

However, the trend of pre-tax profit fluctuates greatly, with a large drop from 2016 to 2017 which would be worrying for senior managers, although is mainly explained by the issues in the Australian and New Zealand markets. They can use this to investigate why this has happened and hopefully to be able to avoid making the same mistakes in the future.

The trends in all 3 of the other pieces of data are extremely encouraging as they show continuous YOY growth. This information can be useful to senior managers to report back to shareholders and employees who will be pleased with the progress they are making. This data can also be useful to set targets for certain departments within the business.

Q.		Total
4 (b)	<p>Using the information in Table 2, calculate the current ratio for Just Eat for 2017.</p> <p>AO1: 1 mark AO2: 1 mark</p> <p>Award 1 AO1 mark for the correct formula.</p> <p>Formula: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$</p> <p>Award 1 AO2 mark for the correctly calculated ratio.</p> $\frac{292.6}{248.5} = 1.18:1$ <p>1 mark should be deducted if the answer is not expressed in the format :1.</p>	2

Q.		Total
4 (c)	<p>Assess the liquidity position of Just Eat.</p> <p>AO1: 1 mark</p> <p>Award 1 mark for knowledge of the ideal ratio level (benchmark), or a clear description of what the current ratio measures.</p> <p>AO2: 1 mark</p> <p>Award 1 mark if the candidate clearly makes reference to what the calculation answer is showing them, or the improving trend between the two years.</p> <p>AO4: 1 mark</p> <p>Award 1 mark for evaluating the ratios and making a correct judgement of the liquidity position.</p> <p>Indicative content:</p> <p>Both ratios are below the ideal level of 1.5 – 2:1, therefore it would suggest that the liquidity position is slightly worrying.</p> <p>However, as Just Eat is primarily a service platform, it is likely that they will not hold a lot of stock. Therefore, it could be assumed that it is in a satisfactory liquidity position as it does have enough current assets to pay for its current liabilities.</p> <p>The liquidity position has improved from 2016 to 2017 and therefore the liquidity of the business is strengthening.</p> <p>It should be noted that there is not a comprehensive amount of data here to be able to make a firm judgement, and more data such as the level of stock would be useful. However, overall the liquidity of Just Eat appears to be satisfactory but could be stronger.</p>	3

4 (d)	With reference to Just Eat, explain two non-financial measures that it could use to analyse its performance. [6]	
Band	AO2	AO3
	2 marks	4 marks
3		<p>4 marks</p> <p>Excellent explanation of two non-financial measures that Just Eat could use to assess its performance is given.</p> <p>The explanation is detailed and includes well-reasoned developments that give a good explanation of the non-financial measures and how they can be used to assess performance.</p>
2	<p>2 marks</p> <p>Good application to Just Eat is made.</p> <p>There is direct reference to data given in the context.</p>	<p>2-3 marks</p> <p>Good explanation of two non-financial measures that Just Eat could use to assess its performance is given.</p> <p>The explanation will attempt to develop chains of arguments.</p>
1	<p>1 mark</p> <p>Limited application to Just Eat is made.</p> <p>The candidates' response is mainly theoretical with limited use of the data given in the context.</p>	<p>1 mark</p> <p>Limited explanation of the measures Just Eat could use to assess their performance is made.</p> <p>The explanation is likely to be brief and undeveloped.</p>
0	<p>0 marks</p> <p>No application to the context of Just Eat is made.</p>	<p>0 marks</p> <p>No explanation of the non-financial methods Just Eat could use is made.</p>

Indicative content:

There are several ways in which the non-financial performance of a business can be assessed such as:

- Market share – although no explicit data is given on market share, it could be assumed that it has grown due to the acquisition of one of its rivals hungryhouse.
- Sales targets – closely linked to revenue which is hugely increasing YOY.
- Customer satisfaction – this could be analysed from the point of view of both individual customers using the service and restaurant partners. These could both be assumed to be showing strong performance as again the figures of each of these are increasing.
- Employee attitude surveys – According to the data 82% of employees say they are proud to work at Just Eat. Whilst this may seem pleasing, there is room for improvement, especially as 2 900 is a relatively small number of employees.
- Environmental impact – whilst there is not much direct impact given in the case, it could be expected that Just Eat is thinking about its global operations and the impact it is having on the environment to ensure sustainable food production.
- Quality – working closely with the FSA will go towards ensuring the quality of the food provided by its partners remains high. They will also need to ensure that the quality of the service they provide remains high, such as website updates to prevent downtime and crashes.

4 (e)	Consider the opportunities and threats that are likely to affect Just Eat's business strategy. [10]		
Band	AO2	AO3	AO4
	4 marks	2 marks	4 marks
3	<p>4 marks</p> <p>Excellent application of the opportunities and threats to Just Eat's market is made.</p> <p>There is consistently direct and clear reference made to the data and/or the industry.</p>		<p>4 marks</p> <p>Excellent evaluation of the opportunities and threats that Just Eat is likely to be facing.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference is given to the context to support their judgements.</p> <p>Relevant judgements are made, with qualifying statements used to build an argument.</p>
2	<p>2-3 marks</p> <p>Good application of the opportunities and/or threats that Just Eat is likely to be facing.</p> <p>The answer makes clear reference to Just Eat's market and/or the given data.</p>	<p>2 marks</p> <p>Good analysis of the opportunities and threats likely to be facing Just Eat.</p> <p>Well explained and developed.</p>	<p>2-3 marks</p> <p>Good evaluation of the opportunities and threats that Just Eat is likely to be facing.</p> <p>The candidate makes partial judgements with some attempt to support their statements.</p>
1	<p>1 mark</p> <p>Limited application of opportunities and/or threats to the context of Just Eat.</p> <p>The response is mainly theoretical with limited use of examples from the data and/or the industry.</p>	<p>1 mark</p> <p>Limited analysis of the opportunities and/or threats that Just Eat is likely to be facing.</p> <p>Brief and undeveloped.</p>	<p>1 mark</p> <p>Limited evaluation of the opportunities and/or threats that Just Eat is likely to be facing.</p> <p>Unsupported and superficial judgements are made.</p>
0	<p>0 marks</p> <p>No application to the context is given.</p>	<p>0 marks</p> <p>No analysis is given.</p>	<p>0 marks</p> <p>No evaluation is given.</p>

Indicative content:

Opportunities may include:

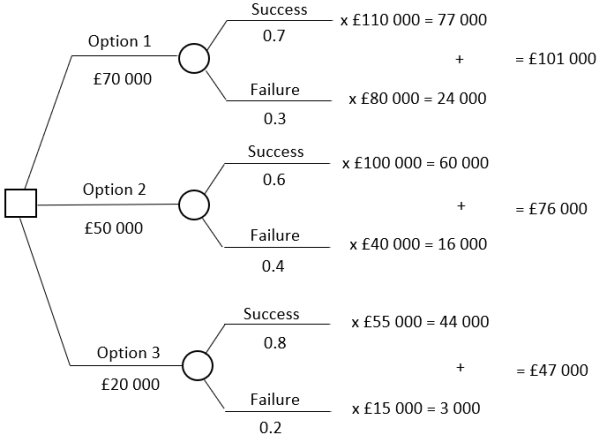
- Further growth both internationally and within the UK market. Could consider more acquisitions to further increase market share, as well as focussing on signing up more restaurants as partners.
- Further development of apps as more consumers are using Smart technology.
- Broadening the type of establishment they partner with, such as pubs or restaurants.
- Further international expansion.
- More external growth, if allowed by the CMA.

Threats may include:

- Increasing competition coming to the market, such as Deliveroo.
- Varied competition such as UberEats who go and get the food for you.
- Reduction in spending on unhealthy foods following government initiatives.
- New market regulations post-Brexit.
- PR related problems if some of their partners do not meet health and safety standards.
- GDPR issues with storing customer data.

Q.		Total
5 (a)	<p>Calculate the price elasticity of demand for the theatre tickets.</p> <p>AO1: 1 mark AO2: 3 marks</p> <p>Award 1 AO1 mark for the correct formula.</p> <p>PED = $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$</p> <p>Award 1 AO2 mark for each correct stage of the calculation as shown below. (max 3)</p> <p>Quantity change: 72% capacity utilisation = 1200 x 0.72 = 864 seats</p> <p>% change = $\frac{864-1080}{1080} \times 100 = -20\%$ (1)</p> <p>Price % change = $\frac{58-50}{50} \times 100 = 16\%$ (1)</p> <p>PED = $\frac{-20\%}{16} = -1.25$ (1)</p> <p>OFR applies.</p>	4

Q.		Total
5 (b)	<p>Explain how this level of elasticity may impact Debra's pricing decisions.</p> <p>AO1: 1 mark AO3: 1 mark</p> <p>Award 1 AO1 mark for correctly classifying the elasticity based on the calculation result from part a.</p> <p>At an elasticity of -1.25, this means that Debra's price is <u>elastic</u>. (OFR applies).</p> <p>Award 1 AO3 mark for correctly identifying whether the price should be increased based on the calculation.</p> <p>Indicative content:</p> <p>Therefore, this means that Debra <u>should not increase her price</u> in order to increase revenue. She should decrease her price to increase revenue as demand would fall by a lesser amount. (1)</p>	2

Q.		Total
5 (c)	<p>Use the information to construct a decision tree diagram and calculate the net return on each option.</p> <p>AO1: 1 mark AO2: 4 marks</p> <p>Award 1 AO1 mark for correctly constructing the diagram</p> <p>Award 1 AO2 mark for each correctly calculated Expected Value (1 mark per option) (max 3 marks)</p> <p>Award 1 AO2 mark for correctly calculating all three Net Returns</p> <p>Indicative content:</p>  <p>Net Returns:</p> <p>Option 1: £101 000 - £70 000 = £31 000 Option 2: £76 000 - £50 000 = £26 000 Option 3: £47 000 - £20 000 = £27 000</p> <p>OFR applies.</p>	5

5 (d)	Discuss the usefulness of decision trees to Debra when making decisions about growing her business. [8]		
Band	AO2	AO3	AO4
	2 marks	2 marks	4 marks
3			<p>4 marks</p> <p>Excellent evaluation of the usefulness of decision trees is made.</p> <p>Clear reference to the context is made to support the judgement.</p> <p>Relevant judgements are made with qualifying statements used to build an argument.</p> <p>An overall conclusion may be offered.</p>
2	<p>2 marks</p> <p>Good application is made to the context and the options.</p> <p>There is direct and clear reference made to the context and the constructed decision tree diagram.</p>	<p>2 marks</p> <p>Good analysis of the usefulness of decision trees is given.</p> <p>Developed analysis with logical chains of reasoning.</p> <p>Benefits and limitations of decision trees are likely to be considered.</p>	<p>2-3 marks</p> <p>Good evaluation of the usefulness of decision trees is made.</p> <p>The argument will be balanced and make attempts to support any judgements made.</p> <p>There is likely to be an overall conclusion for top marks in this band.</p>
1	<p>1 mark</p> <p>Limited application is made to Debra.</p> <p>The response is mainly theoretical with little use of the context.</p>	<p>1 mark</p> <p>Limited analysis of the usefulness of decision trees is made.</p> <p>Analysis is brief and undeveloped.</p>	<p>1 mark</p> <p>Limited evaluation of the usefulness of decision trees is made.</p> <p>Unsupported and limited judgements are made and are often likely to be superficial.</p>
0	<p>0 marks</p> <p>No application is made to Debra and her decisions.</p>	<p>0 marks</p> <p>No analysis of the usefulness of decision trees is given.</p>	<p>0 marks</p> <p>No evaluation of the usefulness of decision trees is given.</p>

Indicative content:

Decision trees are useful because they clearly lay out the problem so that all options can be considered; they allow managers to analyse fully the possible consequences and risks of a decision; and they provide a framework to quantify the values of outcomes and the probabilities of achieving them.

For Debra, the decision tree makes it easier to make a quantifiable decision, and the figures show that the best option financially is option 1. However, all options give a relatively close net return and option 1 has by far the highest initial investment cost, which may have an influence on what Debra would decide to go with. In addition, option 3 should reduce her capacity utilisation problems which would address another area for concern, before developing into a new market.

However, probabilities are only an estimate which may be inaccurate; they can over simplify a decision and focus too much on the financial outcome; they don't take into consideration other factors such as manpower, manager's opinions and marketing issues; and they can be time consuming to construct and could be interpreted with bias.

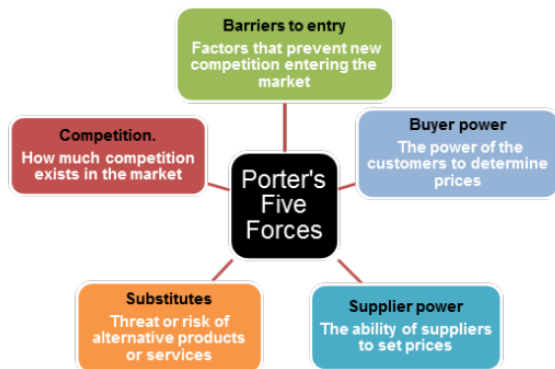
Possible themes for evaluation:

- The data predictions need to be researched if they are to have value.
- Should be used in conjunction with other decision-making models.
- Must consider qualitative factors alongside this such as the effects on stakeholders.
- Overall, for Debra, she must consider how much finance she has available for the investment decision, and also what strategic direction she wants to take her business in.

6				
Considering three of Porter's Five Forces, evaluate how Esso may adapt its business strategy to respond to conditions in the marketplace.				[12]
Band	AO1	AO2	AO3	AO4
	2 marks	4 marks	2 marks	4 marks
3		<p>4 marks</p> <p>Excellent application of the five forces to Esso and the petrol station industry.</p> <p>There is consistently direct and clear reference made to Esso and the petrol station industry.</p>		<p>4 marks</p> <p>Excellent evaluation of the ways Esso could adapt its strategy to respond to the market.</p> <p>Clear reference to the context is given to support the judgement.</p> <p>Relevant judgements are made with qualifying statements used to build an argument.</p> <p>There may be an overall conclusion.</p>
2	<p>2 marks</p> <p>Good knowledge of Porter's Five Forces Framework.</p> <p>The candidate is able to identify 3 or more of the forces and show good knowledge of what the force measures.</p>	<p>2-3 marks</p> <p>Good application of the forces to Esso and the petrol station industry.</p> <p>There is clear direct reference to the context of Esso and the petrol station industry.</p>	<p>2 marks</p> <p>Good analysis of the ways Esso may adapt its strategy in order to respond to the marketplace.</p> <p>The analysis will attempt to develop chains of argument.</p>	<p>2-3 marks</p> <p>Good evaluation of the ways Esso could adapt its strategy to respond to the market.</p> <p>The candidate makes partial judgements with some attempt to support their evaluation.</p> <p>There is some reference to the context to support judgements.</p>
1	<p>1 mark</p> <p>Limited knowledge Porter's Five Forces.</p> <p>The candidate identifies 1 or 2 of the forces and is able to show some knowledge of what they measure.</p>	<p>1 mark</p> <p>Limited application of forces to Esso and the petrol station industry.</p> <p>The response is mainly theoretical with little use of the context.</p>	<p>1 mark</p> <p>Limited analysis of the ways Esso may adapt its strategy in order to respond to the marketplace.</p> <p>The analysis is likely to be undeveloped and brief</p>	<p>1 mark</p> <p>Limited evaluation of the ways Esso could adapt its strategy to respond to the market.</p> <p>Unsupported and limited judgements are made and are often likely to be superficial.</p>
0	<p>0 marks</p> <p>No knowledge of Porters Five Forces is shown.</p>	<p>0 marks</p> <p>No application to the context is given.</p>	<p>0 marks</p> <p>No analysis is given.</p>	<p>0 marks</p> <p>No evaluation is given.</p>

Indicative content:

Porter's Five Forces is a model of a business environment that stated industries and businesses were influenced by five external forces that would determine a business's behaviour and the likely levels of profitability within an industry.



Barriers to entry/Threat of New Entrants: Barriers to entry are likely to be high in this industry, partly due to:

- Established competitors who will benefit from economies of scale and thus able to keep the price of their fuel down – essential in this industry.
- Complex infrastructure needed such as secure sites, and regular supply.
- Brand identity.

As Esso is already established in the market, it wants to influence this force to make it as high as possible, to limit the number of new entrants and thus make it easier to make higher profits. Esso could do this by special offers, loyalty card schemes and wide coverage of profitable locations, making it harder for new entrants to find suitable locations.

Threat of Substitutes: Esso need to reduce the threat of substitutes as much as it can in order to increase profits. It is in a good position against substitutes as although there are other forms of transport customers could use, the trade-off to switch to these is high. Therefore, there is little Esso can do in terms of its strategy to influence these substitutes to increase profits. However, it can ensure that it keeps up with developments in the transport markets such as the development of other types of fuel. Where appropriate, it may invest in these developments such as keeping sites up to date with technology such as electric car charging points.

Bargaining power of suppliers: In order to increase profits, Esso would need to reduce supplier power as much as possible to ensure it can maintain a strong profit margin on the fuel and other supplies that it buys. However, Esso is owned by ExxonMobil who supply Esso with its fuel, so it is already vertically integrated. Therefore, supplier power here is not really relevant as Esso are likely to benefit from extremely low/cost price supplies. Therefore, this is likely to increase its profitability over competitors who are not vertically integrated. In the long term, it could look at further external growth such as takeovers, as this would reduce supplier power even further.

Bargaining power of buyers: Esso would want the bargaining power of buyers to be as low as possible to allow for high profitability levels. It is likely that buyer power is quite low naturally as consumers don't buy in bulk, and often buy for convenience to fill up with petrol wherever is nearest. Esso could perhaps adapt its strategy to take further advantage of methods such as loyalty cards to increase its USP and encourage consumers to keep returning to its petrol stations.

Degree of competition: Although the level of competition is difficult to control in a market place, Esso are clearly competing with a large number of competitors, which will reduce profit levels as it will force down prices. However, in this industry where prices are heavily dictated by global oil prices, there is little that individual firms can do to impact this. In the long term, it could attempt to reduce competition through actions such as horizontal integration, or perhaps look to gain more exclusive contracts in certain locations such as service stations.