



GCE MARKING SCHEME

BUSINESS STUDIES AS/Advanced

SUMMER 2012

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2012 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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BUSINESS STUDIES

BS1 MARK SCHEME

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.

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Quality of written communication

The QWC is assessed in question 4

BS1

- Q.1 (a) **Which method of production would be most suitable for making the hats? Give reasons for your choice.** [4]

Job production (1) an explanation of what this means and/or advantages (1x3) or reasons why the others are unsuitable (1x2)

High cost/unique product/specialist skills.

- (b) **Suggest two sources of finance that may be suitable for Jessica in order to obtain the equipment she needs. Justify your choices.** [6]

| | | |
|---------|-----|---|
| Level 1 | 1-2 | The candidate briefly outlines one or two sources of finance. |
| Level 2 | 3-4 | The candidate explains the appropriateness of one or two methods. |
| Level 3 | 5-6 | The candidate fully analyses at least two sources and selects some. |

Profit this is not an inexpensive source of finance for Jessica – she may have this since £5000 is not a considerable sum of money.

Sale of assets is unlikely, as all assets are likely to be essential to the business.

Share capital she could change the ownership structure, but it is unlikely that she will want to lose control of her business.

Loan capital this is probably the one that she would choose. Probably a medium-term loan because she is most likely using the overdraft option and she does not need a large amount of money to buy a property, therefore, a mortgage would be unsuitable.

Venture capitalists she could approach these if she is unable to secure a loan through the more traditional routes. The disadvantage is that they are likely to ask for some equity in return.

Government grants good if she can get one, but there is a considerable amount of administration and they are slow in coming through.

Credit cards she could raise £5000 on her credit card but the rate of interest will be high.

HP

Leasing

Personal Savings

Overdraft (accept Separate to loan, if justified)

Friends and Family

Q.2 (a) Explain two problems for Sandra of operating in a niche market. [4]

- Attract competition from other firms – by their very nature they are small and cannot compete with much competition.
- Do not benefit from economies of scale.
- Are often over-reliant on one product and so cannot spread its risks.
- Are affected more by swings in consumer spending – can only survive this for a short period of time.
- Shops are unlikely to stock items.
- Hard to expand.
- Smaller market/limited profit.
- Harder to raise finance – high risk.

2x2 marks for explanation.

(b) (i) Distinguish between primary and secondary market research and suggest one type of each which would be suitable for Sandra's business. [4]

Primary research (1)

- questionnaires
- interviews
- postal surveys
- observation
- focus groups

Secondary research (1)

- competitors
- government publications
- general commercial publications
- Internet

Primary research involves collecting primary data, which did not exist before the research began. (1)

Secondary research involves the collection of secondary data, information that already exists. (1)

(ii) Outline the benefits and drawbacks to Sandra of carrying out market research. [6]

Level 1 1-2 The candidate briefly outlines the benefits or drawbacks of carrying out market research. No reference to Sandra's business.

Level 2 3-4 The candidate outlines the benefits and drawbacks and may refer to Sandra's business.

Level 3 5-6 The candidate gives a balanced outline of the benefits and drawbacks which are specific to Sandra's business.

Benefits

- Can identify opportunities and threats, i.e. changes.
- Can be used to monitor sales after a promotional campaign.
- Can help them find alternative routes to overcome a problem.
- Identify target market.
- Reduce risk of failure.

Drawbacks

- Research does not guarantee success.
- It is costly in time.
- Often all that is needed is good intuition or a hunch.
- Costs money.
- Research can be unreliable.

(c) **Evaluate the view that operating as a private limited company rather than as a sole trader is more appropriate for a business such as Sandra's.** [8]

| | | |
|---------|-----|---|
| Level 1 | 1-2 | The candidate demonstrates a basic understanding of both types of organisations. |
| Level 2 | 3-5 | The candidate attempts to explain the benefits of operating as a private limited company rather than as a sole trader (or vice versa). There is an attempt to justify their choice. |
| Level 3 | 6-8 | The candidate fully explains the benefits of operating as a private limited company or sole trader. They fully evaluate their choice. |

Advantages:

Sole trader

- full control
- quick decision making
- keeps all the rewards
- privacy of business affairs.

Private Limited Company

- more resources/ideas
- room for specialisation
- limited liability
- access to finance.

Disadvantages:

Sole Trader

- unlimited liability
- more responsibility
- no-one to cover
- limited resources

Private Limited Company

- having to share the profits
- slower decision-making
- having to disclose the accounts
- more expenses

Evaluation

Which is best? Depends on the owner's objectives – do they want to retain control, do they want to grow?

The choice made is immaterial, what is required is a logical, structured answer.

Only credit valid points once, e.g. limited liability.

Q.3 Examine the impact of the closure of Amdega on its stakeholders. [8]

| | | |
|---------|-----|--|
| Level 1 | 1-2 | The candidate identifies one to two stakeholders and briefly outlines the impact of the closure. |
| Level 2 | 3-5 | The candidate identifies a range of relevant stakeholders and explains the impact of the closure to them. |
| Level 3 | 6-8 | The candidate identifies the majority of the relevant stakeholders and fully explains the impact of the closure to them. |

- **Employees** these are concerned with job security and promotional prospects - they are now faced with job losses and may not get other work.
- **Customers** are losing deposits, they will have to find alternative suppliers.
- **Suppliers** may be left with stock that they have bought in to do some of the jobs on the order book. They will have to find a replacement client.
- **Government** every firm that 'goes under' means a loss of revenue for the government and often higher benefit payments.
- **Shareholders/Investors** loss of investment, reluctance to invest in other risk ventures.
- **Community** areas become depressed, increased vandalism, greater pressure on the local services / less traffic, etc.
- **Sub-contractors.**
- **Competitors.**
- **Trade Unions** – dealing with redundancies.

Q.4 'The choice of location is more important for some businesses than others.'
Discuss. **[10]**

| | | |
|---------|------|--|
| Level 1 | 1-3 | <p>The candidate briefly describes some relevant location factors.</p> <p>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.</p> |
| Level 2 | 4-7 | <p>The candidate attempts to explain why location is important for some businesses, and not so important for others. May use examples to illustrate their answer.</p> <p>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 area.</p> |
| Level 3 | 8-10 | <p>The candidate explains fully why location is important for some businesses, and not so important for others. The candidate is likely to use examples to illustrate their answer. The candidate will consider/evaluate how different businesses are affected by different location factors.</p> <p>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.</p> |

Location depends on:

- Market accessibility – reduction in costs.
- Government – grants.
- Image – perfume from Paris, Whisky from Scotland – gives prestige.
- Land – availability, cost, raw material deposits.
- Infrastructure – energy and transport.
- Communications – with suppliers, customers.
- Production process – volume reduction/increase.
- Labour skills – and cost of labour / availability of relevant labour.
- Other firms – shared resources.
- Impact of IT/footloose companies.

DO NOT reward mention of product, price and promotion, only credit place.

BUSINESS STUDIES

BS2 MARK SCHEME

GENERAL MARKING GUIDANCE

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Quality of written communication

The QWC is assessed in question 3(f).

BS2

Q.1 (a) With the aid of a diagram, explain what is meant by 'wide spans of control'. [4]

- Appropriate diagram. (x2)
- Number of subordinates answerable directly to a manager. (x1)
- Wide span of control if the manager has many direct subordinates. (x1)

(b) Assess the advantages and disadvantages, to organisations such as the Forestry Commission, of delayering. [8]

| | | |
|---------|-----|---|
| Level 1 | 1-2 | Candidate briefly outlines one or two advantages/disadvantages of delayering to organisations such as the Forestry Commission. |
| Level 2 | 3-5 | Candidate attempts to explain at least one advantage and one disadvantage of delayering to organisations such as the Forestry Commission. |
| Level 3 | 6-8 | Candidate fully assesses the advantages and disadvantages of delayering to organisations such as the Forestry Commission. |

Possible responses may include:

Advantages:

- The removal of managerial layers in the hierarchical structure will mean that the business will save money on salaries.
- Better communication may result and lines of communication may be shorter.
- If remaining staff are 'empowered' to make their own decisions they become more motivated and productive.
- Greater possible efficiency may result.

Disadvantages:

- Those managers/workers who remain may become fearful for their own jobs and therefore demoralised.
- Staff may be de-motivated as chances of promotion are reduced.
- Some staff may now be over-burdened with work and are therefore less efficient.
- Cost implications – redundancies
- Remaining staff may require training as to cope with extra responsibilities – cost of training.

- Q.2 (a) What is meant by:**
- (i) capital expenditure; [2]**
- Spending on new fixed assets.
 - Such as machinery, buildings, poly tunnels.
- (ii) drawings? [2]**
- A withdrawal by a (the owner) sole trader from the business for personal reasons.
 - Represents the salary taken out by Andy Farrell/Proprietor.
 - Appears on the accounts of an unlimited liability firm.
- (b) With the aid of an example from Farrell's Vegetables, explain the meaning of:**
- (i) debtors [2]**
- (ii) trade creditors. [2]**
- Debtors are people who **owe** Andy Farrell money.
 - They represent the total value of sales to his customer for which payment has not yet been received.
 - Creditors (payable) are those to whom Andy Farrell **owes** money.
 - Farrell has purchased goods from suppliers or services on credit so that payments are still outstanding.
- (c) Calculate the value of:**
- (i) tools and machinery = £55,000 or 55,000 [1]**
- (ii) net current assets working capital = £24,620 or 24,620 [1]**
- (d) Explain why having enough working capital is so important to a business such as Farrell's Vegetables. [4]**
- Possible responses may include:
- 1 for suggestion
1 for development/related to the business
- 2 x 2
Max 2 for list
- Needed to fund the day-to-day finance available for running a business if there is not enough cash for the business he may not be able to pay his bills on time. If he borrows too much through trade credit, he might be unable to pay invoices when they are due.
 - Working capital is needed to pay for raw materials and running costs. Production/growing would be halted if Farrell's run out of seeds, etc.
 - Working capital is also needed to fund the credit offered to customers (debtors) when making a sale. Customers may go to a competitor if Andy cannot offer credit.
 - If Andy Farrell has too little working capital he may struggle to finance increased production without straining his liquidity position.

Q.3 (a) Describe, with the use of a diagram, the various stages of a 'Product Life Cycle'. [8]

| | | |
|---------|-----|---|
| Level 1 | 1-2 | Candidate demonstrates a basic understanding of product life cycles. |
| Level 2 | 3-5 | Candidate attempts to explain, possibly with the use of a diagram, what is meant by a product life cycle. |
| Level 3 | 6-8 | Candidate fully explains what is meant by a product life cycle and produces an accurate and fully labelled diagram. |

Max level 2 – 3 marks if just the diagram.

Possible responses may include:

- The stages - development, launch, growth, maturity, (saturation), and decline - suitable diagram.
- During the development stage there is substantial negative cash flow caused by spending on R&D, market research, product design and preparing for production.
- During the launch and growth stages a good deal needs to be spent for promotion in order to boost sales.
- Cash can be reaped from sales once they have stabilised during the maturity stage.
- In the decline stage decisions have to be made as to whether to support the product or remove it from the market.
- Products pass through these stages at different speeds - examples.
- Some products do not make it past the early stages and fail.

(b) Why it is important to the Mars Corporation to have cash cows, such as the Mars Bar, in its production portfolio? [6]

| | | |
|---------|-----|---|
| Level 1 | 1-2 | Candidate demonstrates a basic understanding of the concept. |
| Level 2 | 3-4 | Candidate demonstrates a basic understanding of the concept and attempts to explain why Cash Cows are important to businesses such as Mars. |
| Level 3 | 5-6 | Candidate demonstrates an understanding of the concept and fully explains why Cash Cows are important to businesses such as Mars. |

Possible responses may include:

- One of the four categories of the Boston Matrix.
- A brand/product that has a high market share in a relatively slow growing or declining market.
- Will have a strong positive cash flow and tend to be very profitable.
- Do not need lots of money spent on them in order to boost sales.
- Money from Cash Cows can be used to invest in newer products with greater growth prospects.
- Cash generation (milking) can be achieved by pushing prices up as high as possible while minimising expenditure on R&D, market research or advertising.

For diagram – credit for basic understanding (level 1)

Do not credit – if they invest money into cash cows they become stars

Max 5 marks (level 3) with no reference to Mars Bar.

(c) Analyse why Mars uses branding as part of its marketing strategy. [6]

| | | |
|---------|-----|--|
| Level 1 | 1-2 | Candidate identifies one or two reasons why Mars uses branding as part of their marketing strategy. |
| Level 2 | 3-4 | Candidate attempts to analyse one or two reasons why Mars uses branding as part of their marketing strategy. |
| Level 3 | 5-6 | Candidate fully analyses reasons why Mars uses branding as part of their marketing strategy. |

Possible responses may include:

- To create brand loyalty - repeat purchases.
- The development of a clear brand identity will help to differentiate Mars' products from their competitors.
- Helps to gain flexibility when making pricing decisions.
- To create instant recognition of a related product. Examples related to Mars from text.
- To develop a brand image - customers will respond to the logo and packaging on related goods as they 'trust' the product.

Max 5 marks (level 3) with no reference to Mars.

(d) What is 'labour productivity' and how might it be measured? [4]

- Productivity is a measurement of the efficiency with which a firm turns production inputs into output. (x2)
- Can be measured by - dividing the output per period (x1) by the number of workers employed. (x1)

Reference to output per worker(1) over time/ reference to time (1)

(e) Explain possible methods businesses such as Mars might use to improve their productivity? [8]

| | | |
|---------|-----|--|
| Level 1 | 1-2 | Candidate briefly outlines one or two methods that businesses such as Mars might use to improve their productivity. |
| Level 2 | 3-5 | Candidate attempts to explain at least two methods that businesses such as Mars might use to improve their productivity. |
| Level 3 | 6-8 | Candidate fully explains methods that businesses such as Mars might use to improve their productivity. |

Possible responses may include:

- Improve the motivation of the workforce - examples of how this might be achieved. Financial/ Non financial rewards. Management styles. Accept motivation theories if related to productivity.
- Reducing absenteeism.
- Developing a multi-skilled workforce. Training.
- Making technological improvements - replacing labour with machinery, robots.
- Changing the layout of the factory or office.
- Downsizing.
- Adopting a 'Kaizen' approach. TQM / lean production – link to productivity and not quality.
- Delaying and empowerment.
- Employ management consultants.
- Benchmarking (must be develop to productivity).
- Alternative production methods.
- Relocation.

(f) Evaluate the view that *internal recruitment* will always be preferable to *external recruitment* for businesses such as the Mars Corporation. [12]

| | | |
|---------|------|--|
| Level 1 | 1-4 | Candidate briefly describes one or two reasons why <i>internal recruitment</i> may be preferable to <i>external recruitment</i> for the Mars Corporation. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas. |
| Level 2 | 5-8 | Candidate attempts to explain reasons why <i>internal recruitment</i> may be preferable to <i>external recruitment</i> for the Mars Corporation. Occasional errors in grammar, punctuation and spelling occur but they are not sufficient to suggest a weakness in these area. |
| Level 3 | 9-12 | Candidate fully evaluates the viewpoint. There is very good use of specialist terminology. There are few, if any, errors of grammar, punctuation and spelling. |

Possible responses may include:

Why internal recruitment may be preferable:

- Employees within the Mars Corporation have a chance to develop their career - greater motivation.
- Greater loyalty from internal candidates/labour turnover.
- Familiarity with the organisation means that induction period will be much shorter.
- Internal candidates' abilities are well-known - less risk of appointing a candidate who may not prove suitable.
- The process will be quicker and less expensive.

However, external recruitment will provide a wider choice of candidate.

- The number of internal applicants may be limited.
- Better quality external candidates may have been lost - the best person for the position may be overlooked.
- Promoting internally means that another post now has to be filled.
- Internal candidates may find it difficult to manage former colleagues/ friends who are now subordinates. Prejudices may exist.
- The candidate may not bring an innovative or fresh approach to the position, especially if they have been with the organisation for any length of time - something which appears important to Mars.

BUSINESS STUDIES

BS3 MARK SCHEME

GENERAL MARKING GUIDANCE

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Quality of written communication

The QWC is assessed in questions 4 and 5.

BS3

Q.1 Identify and explain the main political, economic and social factors that are likely to affect Thomas Cook plc. **[10]**

- | | | |
|----------------|------|---|
| Level 1 | 1-3 | The candidate shows some understanding of the PE&S factors that are likely to affect Thomas Cook plc. |
| Level 2 | 4-7 | The candidate shows greater understanding of the PES factors that are likely to affect Thomas Cook plc. |
| Level 3 | 8-10 | The candidate shows good understanding of the PES factors that are likely to affect Thomas Cook plc. |

Responses might include the following:

Political:

- Civil unrest in some countries, e.g., Syria and Morocco.
- Restrictions on tourist by governments, e.g., Russia and China.
- The threat of terrorist activity.
- Legislation.
- Taxation.
- Government intervention.

Economic:

- The price of oil and other inflationary factors that might increase costs.
- Rising or falling incomes (e.g., due to the recession). Elasticity.
- Inflation and exchange rates, the euro crisis.

Social:

- Increased demand for all-in package holidays.
- Popularity of adventure-style holidays.
- Increased demand for holidays from former eastern European countries.
- Public attitudes to pollution etc., pressure groups.
- Demographic changes, ageing population more single people.
- Any other relevant factors.

Q.2 Explain the ways in which new technology can benefit Thomas Cook plc and its customers. [10]

| | | |
|----------------|------|---|
| Level 1 | 1-3 | The candidate demonstrates some understanding of the ways in which new technology can benefit Thomas Cook plc and/or its customers. |
| Level 2 | 4-6 | The candidate demonstrates good understanding of the ways in which new technology can benefit Thomas Cook plc and/or its customers. |
| Level 3 | 7-10 | The candidate demonstrates excellent understanding of the ways in which new technology can benefit Thomas Cook plc and its customers. |

Answers might refer to the following:

- Online booking systems are cheaper for Thomas Cook and more convenient for customers.
- Thomas Cook can take advantage of economies of scale in terms of buying and using IT equipment. It can integrate its systems across its different businesses.
- Information can be updated more quickly using IT.
- Customers can be given special offers when demand for particular holidays is low, this also benefits Thomas Cook as they will have less unused capacity.
- Thomas Cook will find it easier to analyse consumer trends and therefore adapt its business to what consumers want.
- Thomas Cook can offer ticketless flights, which are cheaper and more convenient to administer.
- Customers can check-in online which saves them queuing at the airport.
- New technology makes it easier to plan independent travel.
- Customers find it easier to compare prices using the internet.
- More convenient to book online than visiting a travel agent.
- New technology improves aircraft, increased speed comfort safety etc.
- Any other valid point.

Q.3 Analyse and evaluate the financial performance of Thomas Cook plc [14]

- Level 1** 1-4 The candidate attempts some analysis/evaluation of the financial performance of Thomas Cook plc.
- Level 2** 5-9 The candidate makes a reasonable attempt to analyse/evaluate the financial performance of Thomas Cook plc.
- Level 3** 10-14 The candidate makes a detailed and well-balanced analysis and evaluation of the financial performance of Thomas Cook plc.

| | 2010 | 2009 |
|---|-------------|-------------|
| <i>Gross Profit Margin</i> | 23.2% | 23.6% |
| <i>Net Profit Margin</i> | 1.9% | 1.7% |
| <i>ROCE (shareholders' funds + long term liabilities)</i> | 4.75% | 5.46% |
| <i>ROCE (fixed + current assets)</i> | 2.42 % | 2.22% |
| <i>Current ratio</i> | 0.44:1 | 0.40:1 |
| <i>Acid test ratio</i> | 0.43:1 | 0.40:1 |
| <i>Gearing (long term liabilities/shareholders funds)</i> | 101.8% | 67.1 % |
| <i>Gearing (long-term liabilities/shareholders funds + long-term liabilities)</i> | 50.4% | 40.2 % |

The GPM appears to be rather low and has fallen slightly.

The NPM also seems very low but has risen a little.

ROCE seems low. It has fallen on one measure but increased on the other, either way it does not look too promising.

The liquidity ratios, both current and acid test, seem to point to problems but this may be OK due to the nature of the business.

The gearing ratio has increase but still seems to be fine with an even split between borrowed money and shareholders funds. However, this does mean that there may be a problem if the business wishes to expand more in the future.

Overall the company is highly geared with low profit margins and low ROCE with worrying liquidity ratios. Thomas Cook plc does not look in good financial shape.

Q.4 Evaluate Thomas Cook plc's business strategy

[12]

| | | |
|---------|------|---|
| Level 1 | 1-4 | The candidate makes some attempt to analyse/evaluate Thomas Cook's business strategy. |
| Level 2 | 5-8 | The candidate makes a reasonable attempt to analyse/evaluate Thomas Cook's business strategy. |
| Level 3 | 9-12 | The candidate makes a good attempt to analyse and evaluate Thomas Cook's business strategy. |

Responses might include the following:

- Candidates may pick out the key points from the case study and discuss each in turn. This may include the following:
- Figure 2 shows that the market for tourism is vast and that whilst Thomas Cook has core markets in segments 1-3, there is potential for growth in the other segments.
- Since its traditional markets are now mature it is looking for new markets in which to grow, e.g., Russia and China.
- This strategy could be risky because of political or economic factors but on the other hand, since the populations of these countries are huge and they are becoming wealthier it may well be that there is potential for growth.
- This is born out by figure 1, which shows that demand for tourism outstrips growth in GDP.
- The advantages of growth include economies of scale (although there may be risks of diseconomies if the company becomes too large).
- Economies of scale include:
 - the ability to negotiate cheaper prices from suppliers, e.g., aircraft, accommodation, inflight supplies of food and drink.
 - advertising economies; managerial economies; financial economies – they will be able to borrow money at cheaper rates; technical economies, such as with the use of larger planes.

Q.5 “Not all stakeholders benefit from the activities of the tourist industry.”

Discuss.

[14]

| | | |
|---------|-------|---|
| Level 1 | 1-4 | The candidate identifies some stakeholders and makes some attempt to analyse the ways in which the activities of the tourist industry affect them. |
| Level 2 | 5-9 | The candidate identifies several stakeholders and makes a reasonable attempt to analyse the ways in which the activities of the tourist industry affect them. |
| Level 3 | 10-14 | The candidate identifies many stakeholders and makes an well-balanced evaluation of the ways in which the activities of the tourist industry affects them. |

Responses might include the following:

- **Customers:** People enjoy going on holiday and visiting parts of the world that they haven't seen before. However mass tourism can detract from the enjoyment of others. For example, long queues at airports and overcrowded beaches and tourist attractions can make a holiday less enjoyable. Sometimes customers have bad experiences whilst on holiday, including such things as hotels which are still being constructed and outbreaks of food poisoning.
- **Shareholders:** providing that the business is doing well, shareholders will be profiting, but the business can be unpredictable and losses can be made.
- **Suppliers:** in general suppliers of food, accommodation, transport etc., will benefit from the growth of tourism, but they may become over dependent on this one source of income which may suffer in times of recession.
- **Managers:** as long as the business is doing well managers should benefit.
- **Local communities:** on the one hand communities can benefit greatly from the spending power of tourists, which provides jobs and money to local people and businesses. However, some tourist areas have become blighted by too much development. There is often an over-reliance on tourism so that if the numbers of tourists decline for any reason there will be serious economic consequences. Tourism may over utilise some resources to the detriment of the local community, e.g., in southern Spain there is an issue over the availability of water. Not all local people are able to benefit from tourism.
- **Governments:** local and national governments are likely to benefit from the tax revenue generated by tourism. On the other hand they may need to regulate businesses involved in tourism in order to ensure that standards of health and safety are maintained.
- **Employees:** should benefit if the company is successful and have improved motivation, with job security and career progression. However, if the company is cutting costs some jobs may be lost.
- **Creditors:** can gain but stand to lose if tourism is in recession.
- **Competitors:** may win or lose depending on the state of the industry.

BUSINESS STUDIES

BS4 MARK SCHEME

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 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.

BS4

Q.1 Explain, using suitable examples, the reasons for and against the use of contingency planning. [8]

| | | |
|---------|-----|--|
| Level 1 | 1-3 | The candidate demonstrates some understanding of the reasons for and against contingency planning / with some examples. |
| Level 2 | 4-6 | The candidate demonstrates good understanding of reasons for and against contingency planning / with some suitable examples. |
| Level 3 | 7-8 | The candidate demonstrates excellent understanding of the reasons for and against contingency planning / with good use of suitable examples. |

Reasons for:

- Businesses face many risks, both quantifiable and unquantifiable.
- Candidates should be rewarded for giving suitable examples of these risks.
- By having a contingency plan, a business will be prepared for any eventuality that may occur.
- This may save the business time and money in the long-run.

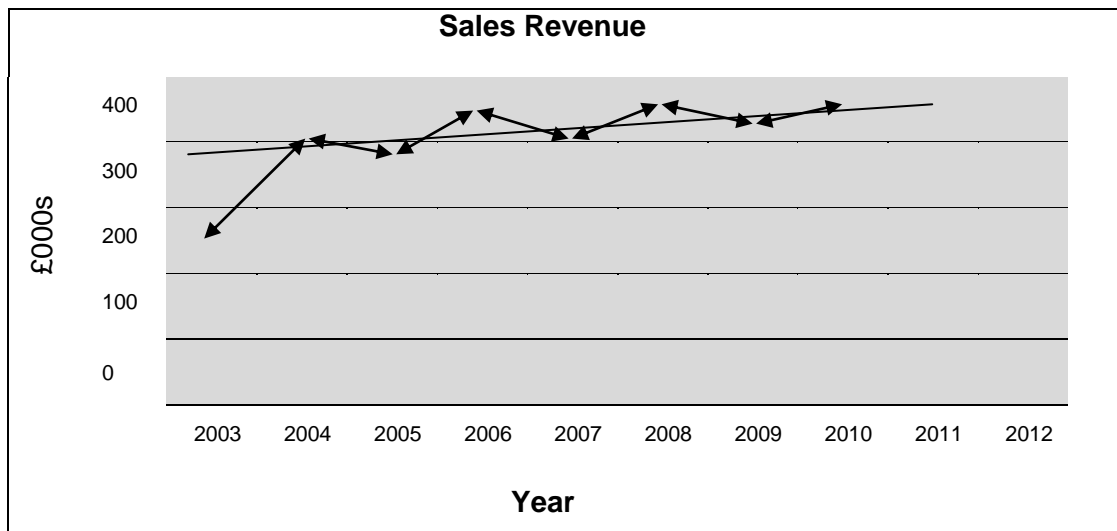
Reasons against:

- Contingency planning may be expensive and time-consuming to carry out.
- Unexpected events may still occur, since it is virtually impossible to plan for every possible outcome.

- Q.2 (a) Calculate a three-year moving average of the company's sales revenue, writing your answers in the table provided. [3]**

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------|------|------|------|------|------|------|------|------|------|
| 225 | 240 | 270 | 360 | 260 | 340 | 330 | 380 | 280 | 420 |
| | 245 | 290 | 297 | 320 | 310 | 350 | 330 | 360 | |

- (b) Plot your answers on the graph provided and draw in a line of best fit.[2]**



- (c) Use the line of best fit to predict the likely sales revenue for 2012. [1]**

Based on candidate's answer £350 000-£450 000

(d) Assess the usefulness of this prediction to the company. [6]

| | | |
|---------|-----|---|
| Level 1 | 1-2 | The candidate makes some attempt to assess the usefulness of the prediction to the company. |
| Level 2 | 3-4 | The candidate makes a good attempt to assess the usefulness of the prediction to the company. |
| Level 3 | 5-6 | The candidate makes an excellent assessment of the usefulness of the prediction to the company. |

Reasons for it being useful:

- It will help the company plan for how much to produce.
- It will give the company an indication of how much money it is likely to make.
- Part of a budget.
- Useful for potential investors.
- It is a quantitative method.
- It smooths out seasonal variations.
- May motivate managers to reach targets.

Reasons why it might not be useful:

Any number of things might happen to make the forecast inaccurate, e.g.

- a competitor might bring out a better product.
- the economy might go into recession.
- supplies of raw materials might be disrupted, etc.
- Does not take into account qualitative issues.

Q.3 Suggest ways in which the Ansoff matrix might be of use to Jordans Ltd in devising its marketing strategy. [8]

- Level 1 1-3 The candidate makes some attempt to suggest how the Ansoff matrix might be of use to Jordans Ltd.
- Level 2 4-6 The candidate makes a good attempt to suggest how the Ansoff matrix might be of use to Jordans Ltd.
- Level 3 7-8 The candidate makes an excellent attempt to suggest how the Ansoff matrix might be of use to Jordans Ltd.

Answers might include the following:

An explanation of the Ansoff matrix, possibly including the diagram:

| | | | |
|--|----------|--------------------|---------------------|
| M A R K E T | | PRODUCT | |
| | | Existing | New |
| | Existing | Market penetration | Product Development |
| | New | Market Development | Diversification |

Market penetration – they could try to find new customers for their existing products. However, this may prove difficult as they are already selling them in the major supermarkets.

Market development – they would try to find new markets for their products, possibly by exporting them to other European countries and elsewhere.

Product development – they could use asset-based marketing to develop new products which they could sell to their existing customers, for example, health drinks sold under the Jordans brand name. This would take advantage of their reputation for producing healthy products.

Diversification – Jordans might consider producing clothing, for example, for the type of people who are interested in a healthy lifestyle. Alternatively, they might try to get into the market for farm holidays. Any suitable suggestion should be credited.

In general, the Ansoff matrix should help the company to analyse its product portfolio and suggest the areas they might consider developing.

Q.4 Using the payback and net present value methods of investment appraisal and the other information provided, advise the company as to whether it should buy a new lorry or upgrade the warehouse. [12]

| | | |
|---------|------|--|
| Level 1 | 1-4 | The candidate makes little use of the information provided to advise the company. |
| Level 2 | 5-8 | The candidate makes a sensible suggestion based on some sound analysis of the information. |
| Level 3 | 9-12 | The candidate makes an informed suggestion based on a full analysis of the information provided. |

| | | New Lorry | Initial cost £45,000 | | Warehouse Upgrade | Initial cost £40,000 |
|--|--|---------------|-------------------------|-------------------|-------------------|-------------------------|
| | Year | discount rate | Income | discounted income | Income | Discounted income |
| | 1 | £0.95 | £15000 | £14,250.00 | £20000 | £19,000.00 |
| | 2 | £0.90 | £15000 | £13,500.00 | £20000 | £18,000.00 |
| | 3 | £0.86 | £20000 | £17,200.00 | £15000 | £12,900.00 |
| | 4 | £0.82 | £20000 | £16,400.00 | £10000 | £8,200.00 |
| | 5 | £0.78 | £25000 | £19,500.00 | £10000 | £7,800.00 |
| | Total Income | | £95000 | | £75000 | |
| | Payback | | 2 years | 9 months | | 2 years |
| | Net Present Value | | | £80,850.00 | | £65,900.00 |
| | NPV minus initial cost | | | £35,850.00 | | £25,900.00 |
| | NPV - initial cost per year | | | £7,170.00 | | £5,180.00 |
| | NPV per year as a percentage of the initial cost | | | 15.93% | | 12.95% |
| | Total percentage return | | | 79.67% | | 64.75% |

From the point of view of payback, the warehouse upgrade is the better option. This may be important as the money made could then be re-invested in other improvements, such as buying a new lorry.

The discounted return is better for the lorry:

However, there may be other factors that need to be considered. The existing warehouse is causing some deliveries to be delayed. This may upset customers and result in the company losing business.

The differences in the financial returns are probably not sufficient to make them the overriding factor.

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 'An effective marketing strategy is more important to a business than the motivation of its employees.' Discuss. [20]

Answers might include the following:

- An explanation of marketing strategy, i.e. an approach to marketing taken by a business which enabled it to meet its objectives.
- Marketing involves the understanding, anticipation and fulfilling of customer needs.
- Reasons why motivation is important, i.e. workers are the most important resource of a business, without a well-motivated workforce it would be difficult for a business to achieve its objectives.
- A discussion as to the relevance of marketing strategy versus motivation in relation to different types of business.
- In reality, most businesses will need to get both their marketing strategy and motivation of staff right to work successfully. For example, the marketing strategy might be to increase sales of a particular product, but if the goods cannot be produced on time, or to a sufficiently high quality, because the workforce is not motivated, the strategy will not work.
- Candidates should be rewarded for giving relevant examples relating to different types of business and relevant application of motivation theory.

Q.6 To what extent do you agree that the best way to understand the performance of a business is to analyse its financial accounts? [20]

Answers might include the following:

On the one hand financial accounts can tell us a great deal about the performance of a business.

This information includes:

- Sales revenue – is it increasing or decreasing?
- Gross and net profit – how well is the business performing?
- Return on capital employed – does the business represent a good investment from the point of view of shareholders and creditors?
- How liquid is the business? What do the current ratio and acid test tell us about the businesses ability to pay its short-term creditors?
- Has the business borrowed too much or is there the potential to borrow more to expand the business (gearing)?

All of this information is very useful in understanding how well the business is performing.

However, caution needs to be exercised in interpreting the accounts. Several years' accounts need to be analysed. Comparison needs to be made with other similar businesses, after all, performance is a relative concept.

Also it may be that there has been some window-dressing of the accounts and the real picture has not been revealed.

In endeavouring to understand the performance of a business it is also important to look at other information apart from its financial accounts.

- How satisfied are its customers? Has a customer satisfaction survey been carried out?
- Are there any legal issues outstanding with regards the business, or any issues with such things as or health and safety? e.g., BP and the gulf of Mexico.
- Are there any quality issues with the business, have they had to withdraw any products from the market, e.g., Toyota cars.
- What is the business's record on the environment? What is its carbon footprint? What has it done recently to improve its environmental record – e.g., Coca Cola using non-oil based plastics in its bottles.
- How good are industrial relations? What are the levels of labour turnover and absenteeism?
- Are there any issues over ethical matters, for example with regards to the way that employees are treated by its overseas suppliers?

The accounts tell us a great deal but other matters need to be considered carefully when discussing the performance of a business.

Q.7 Assess the view that globalisation poses more threats to the majority of UK businesses than opportunities. [20]

Answers might include the following:

Threats posed by globalisation:

- Many manufacturing companies in the UK have been unable to compete with cheap imports and many jobs have been lost as a result.
- Exogenous shocks, e.g. oil price rises, can have a significant effect on economic activity.
- The rising price of raw materials poses a threat to UK businesses.
- Many talented people may decide to emigrate as other countries offer better prospects.
- Political unrest may result in the disruption of sales.
- There may be economic problems in overseas markets that affect sales of UK businesses, e.g., the banking crisis which started in the US.

Opportunities posed by globalisation:

- Increased markets for UK exporters.
- There are many opportunities for firms in the City of London dealing in services such as banking, insurance and transport.
- The prices of many imported items are cheaper than they would have been had they been produced domestically.
- The internet means that small businesses can compete internationally.
- Other factors may affect international trade.
 - e.g. Quotas and tariffs
 - Exchange rates
 - Language barriers
 - Cultural differences
 - Legal differences.

The answer to this question may depend on the type of business and the area of activity that it is involved. Some UK businesses are much better placed to take advantage of global opportunities than others. Those producing goods which can be sold in many markets, e.g., chemicals, drugs, cars, whisky will benefit most from globalisation. Others, whose market is or was predominantly in the UK, such as the motorcycle industry, have suffered.

It may be that the majority are unaffected either way, since, numerically most businesses are small or medium-sized and mostly deal with local customers.



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