



GCE MARKING SCHEME

**BUSINESS STUDIES
AS/Advanced**

SUMMER 2010

INTRODUCTION

The marking schemes which follow were those used by WJEC for the Summer 2010 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

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.

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 6

Q.1 Using the passage, explain the meaning of the term *opportunity cost*. [4]

Opportunity cost measures cost in terms of the benefits of the next best option foregone when making a choice between a number of alternatives. (2)

(If John Evans decides on the caravan park the benefits lost from the trout farm is the alternative foregone.) (2)

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Q.2 Explain the meaning of *primary* and *secondary* market research giving an example of each from the passage. [6]

Primary research (field research) identifies, collects and collates information which does not already exist. (1) It is collected for a specific purpose (1). Most primary information is gathered by asking consumers questions or by observing their behaviour (1) e.g. a questionnaire from the text (1)

Secondary research (desk research) identifies, collects and collates information which is already in existence. (1) This can be collected internally or externally (1). It may be existing business documents or other publications (1) e.g. analysis of current sales figures from the text (1)

Q.3 (a) Explain, with the use of examples, the meaning of *market segmentation*. [4]

Market segmentation is breaking down a market into sub-groups (1) which share similar characteristics. (1) **or** Identifying and targeting of groups of people with similar needs (1) and developing products or services for each of them. (1)

Extended examples (2)

- Gender – products may be targeted at a specific gender group. Traditionally cosmetics have been targeted at women and DIY at men.
- Age – marketing of financial services to older people.
- Socio economic groups/social class – linked to occupation and income groups.
- Culture - Religion//Ethnic grouping – e.g. food, clothes.
- Geographical region – Characteristics of a region or country sometimes set them apart from the rest.
- Lifestyle – people are grouped according the way they lead their lives and the attitudes they share – e.g. young professionals may drive sports cars to project their image.
- Any other recognisable group.

(b) Why do supermarket chains, such as ASDA, segment their markets? [6]

Level 1	1-2	Candidate identifies one or two reasons.
Level 2	3-4	Candidate attempts to explain reasons why supermarket chains, such as Asda, segment their markets.
Level 3	5-6	Candidate fully analyses why supermarket chains, such as Asda, segment their market.

Answers should refer to

- Asda would hope to gain greater knowledge about its customers so that it can vary its products to suit their needs.
- The information will allow businesses such as Asda, to sell more products and make more profit.
- Can identify requirements of different groups more precisely.
- Can meet a variety of customer needs.
- Can meet needs of different segments more effectively than the competition.
- Different segments can be targeted in different ways.
- To develop profiles of the different markets.
- Can increase brand loyalty because customers appreciate that their needs are being met.
- Higher profits – can develop premium segments in which customers accept higher prices.
- Avoids wasteful marketing activities which are not targeted.
- Supports the development of niche markets.
- Prevents products being promoted to the wrong people which would waste resources and possibly lead to losses.
- To gain market share.
- Reference to marketing mix.

Q.4 Evaluate the view that operating as a partnership would be a better option for David than remaining as a sole trader. [10]

Level 1	1-3	Candidate outlines some valid points.
Level 2	4-6	Candidate explains/develops valid points and may attempt some evaluation.
Level 3	7-10	Candidate fully evaluates the view that operating as a partnership would be better for David than remaining as a sole trader.

Answers should refer to

Arguments in favour of a partnership:

- Potentially more capital – needs to find new premises as garage is becoming too small.
- Jason brings new skills – a qualified graphic artist.
- Possibility of specialisation – Jason designing and David applying signs to the vehicles.
- More ideas/problems can be shared.
- Share workload – David is too busy and this presents an opportunity to reduce working hours/take holidays.
- Avoids need to employ somebody - a risk – new staff need training - not sure of their capabilities.

Arguments against forming partnership (staying as a sole trader):

- David loses his independence.
- Will need to share profits – though possible to generate more.
- Could result in disagreements/quarrels. Though many family businesses are successful others end in acrimony.
- Decision making potentially slower – need to consult/less flexibility.
- By employing a new worker David could retain his independence and also reduce his own working hours.
- If after a short time Jason finds he want to leave the partnership then David is back to square one.

Q.5 (a) Distinguish between organic and external growth. [4]

Organic growth – or internal growth is when a firm expands by selling more of its existing products/expansion of current business activities (1) e.g. by selling to wider markets at home or abroad (1) e.g. opening more shops (1) It does not involve other businesses (1)

External growth – this is by acquisition, takeover or merger. (1) May give some description of growth e.g. horizontal integration (1) A quicker method of growth than organic growth. (1)

(b) To what extent can the grocery market in the UK be regarded as oligopolistic? [6]

Level 1	1-2	Candidate defines oligopoly/outlines one or two of the characteristics of oligopoly.
Level 2	3-4	Candidate outlines characteristics and applies the data to the theory of oligopoly.
Level 3	5-6	Candidate applies the data to the theory of oligopoly and evaluates the statement.

Answers should refer to

- Industry/market where supply is concentrated in hands of relatively few suppliers - grocery retail trade dominated by 4 large players – Tesco/Asda/Sainsbury/Morrisons.
- Alongside a few large suppliers there may be large numbers of very small firms – there are thousand of small retail grocery stores.
- Businesses are interdependent – the actions of one will affect another. If Tesco cut its price of petrol how will the other supermarkets react?
- Differentiated products - each of the dominant firms have strong brand identity which differentiates their products from their customers.
- Indulge in non-price competition – the large grocery retailers do this – note the amount of television advertising carried out by the large retail chains.
- Tend to have high barriers to entry due to high set-up costs – in the retail trade there is freedom of entry for retailers, however, the economies of scale – bulk buying enjoyed by Tesco, etc constitute a real barrier.

(Note some candidates may bring to their argument the idea that a monopoly is defined as a business that has 25% of the market. Is Tesco a monopoly?)

Q.6 Consider the view that the expansion of flexible working practices brings benefits to employers and employees but no disadvantages. [10]

Consider the view that the expansion of flexible working practices

- Level 1** 1-3 Relevant benefits to either employers or employees are identified.
- 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 Candidate explains benefits for both employers and employees and may attempt 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 they are not sufficient to suggest a weakness in these areas.
- Level 3** 7-10 Candidate fully evaluates the view that the expansion of flexible working practices brings benefits to employers and employees but no disadvantages.
- 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.

Flexible working practices covers a wide variety of different working patterns including: flexitime, temporary workers, multi-skilling; homeworking, part-time and job sharing.

Flexible working can have two meanings – an acceptance by staff and management that rigid demarcation can lead to inefficiency and that labour flexibility can be better for long-term success – leads to multi-skilling. Secondly the use of staffing patterns that are not dependent on full-time, permanent jobs. In this sense flexible working practices include part-time, flexi-time, job sharing, tele-working.

Answers should refer to

Benefits to employers:

- If multi-skilled can be moved around the department/turn hand to other jobs e.g. cover sickness and holidays.
- Employees work more effectively/more productively/better motivated if they choose type of working pattern that suits them/better morale.
- Can better meet employers needs e.g. need for more employees at some times of the year than others. Firms can more easily meet fluctuations in demand.
- If working from home do not need to set up office space/less equipment needed – saves on employers' costs.
- Fewer problems with absenteeism/arriving late if employees are on flex-time or working from home.
- Businesses can respond more readily to changing circumstances.
- Two sets of skills/experience if job sharing

Benefits to employees:

- Allows employees to develop work patterns that suit their own lifestyles e.g. part-time work whilst bringing up children.
- Less stress juggling work and home.
- Can work to personal preference e.g. morning versus afternoon versus evening.
- Some employees only want to work part-time e.g. people who have reached retirement age.
- Easier to arrange appointments e.g. to dentist, bank, less absenteeism, etc.
- No need to travel if homeworking so can work long distances from base.

Disadvantages to employers:

- If part-time working more difficult to organise training.
- Extra cost of training if part-time/job sharing
- More staff to manage if part-time/job sharing.
- More difficult to administer/co-ordinate/communicate when staff are not always present.
- Specific staff may not be available when needed.
- Team working more difficult to achieve if not working the same hours as other team members.
- More difficult to assess, monitor and control staff.

Disadvantages to employees:

- Lower pay but fewer hours if part-time/job sharing.
- May be less promotion opportunities/may be a real/perceived obstacle to promotion.
- May have lower status than full-time staff.
- May not feel the same sense of belonging/sense of isolation e.g. if job share/part-time working.
- If job sharing may be difficult to develop an effective working relationship if job share partner has different approach to work.
- Temporary contracts provide less security.

BS2

GENERAL MARKING GUIDANCE

It should be remembered that the candidates are mainly eighteen year olds who are writing under examination conditions, for this reason the standard of marking should be appropriate to the levels of performance expected from this age group.

Positive Marking

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

Some questions are awarded marks on the basis of the level 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 properly analyse 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 3.

Q.1 (a) Distinguish, with the use of examples, between fixed and variable costs. [4]

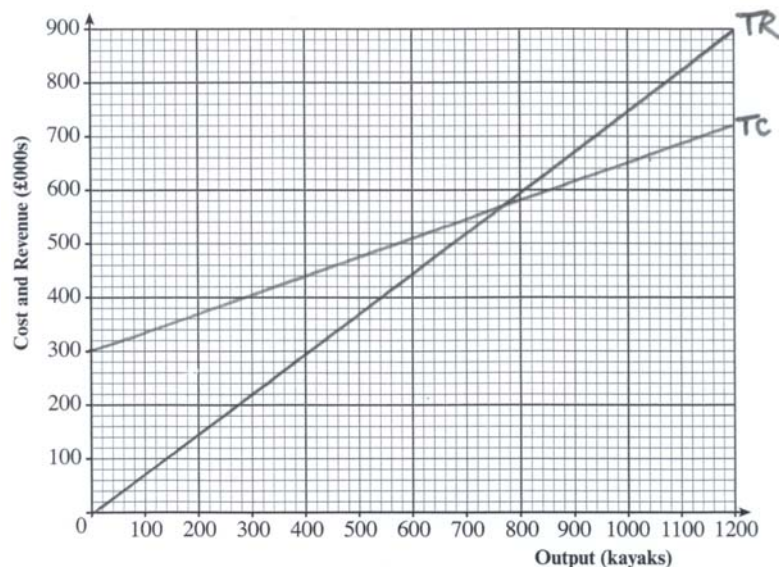
- Fixed costs do not vary with output.
- Fixed costs only change in the long run.
- Examples of fixed costs.
- Variable costs change as output changes.
- Examples of variable costs.

(4 x 1 – 2 for clear distinction plus 1 for example of fixed cost and 1 for example of variable costs.)

(b) Construct and label a break-even chart for the year 2010 on the graph paper provided and write the break-even output figure in the box provided. [5]

BRK's Break-Even Chart 2010

BREAK-EVEN OUTPUT =



(2 marks for accurate construction of TR and TC and 2 marks for correct labelling plus 1 mark for identifying correctly break-even output (apply OFR to break-even.)

Break even quantity = 750 (Accept a range of 740-760).

(c) Based on the figures given in the passage, calculate by how much BRK's profit would change in 2011 compared with 2010. [6]

Revenue: 1200 x £750 = £900,000	1200 x £772.50 = £927,000
Costs FC = £300,000	£320,000
VC = £420,000	£456,000
TC = £720,000	£776,000
PROFIT = £180,000	£151,000

Change in profit = (£29,000) A fall of 16% or 16.1%
 OFR rule to apply to final calculation

Method 1 2011 calculation 2
 2010 Calculation 2 Correct answer 1

(d) Explain the advantages and limitations to BRK of the use of break-even analysis. [8]

Level 1 1-3 Candidate identifies some advantages and or limitations of break-even analysis.

Level 2 4-6 Candidate attempts to explain some advantages and /or limitations of break-even analysis.

Level 3 7-8 Candidate fully explains both the advantages and limitations of break-even analysis to BRK.

Possible responses may include:

Advantages:

- **Easy visual means** of analysing a firm's financial position at different levels of output.
- Profit and loss situation can be seen **at a glance** – good for non-financial specialists.
- Helpful for making decisions in '**what if**' situations.
- Break-even analysis, as part of a **business plan**, can be helpful in gaining finance.
- Can identify the margin of safety – aids planning.

Limitations:

- Often regarded as **too simplistic** as some assumptions are unrealistic.
- It **assumes all output is sold** which is often not the case.
- **Assumes that conditions remain unchanged** – wages, prices, technology can all change suddenly.
- **Relies on the data being accurate** and often under or over estimations are made.
- **Assumes that total revenue and cost curves are always linear** – this may not be the case.
- **Allocating fixed costs** in a multi-product firm can be problematic – thus making break-even analysis output inaccurate.
- **Fixed costs are often stepped** – this makes break-even analysis difficult.

Q.2 (a) Examine the stock control diagram for *Type 2 Buggy Wheels* and identify the following: [4]

- | | | | |
|-------|---------------------|-----------|-----|
| (i) | Lead time | one month | (1) |
| (ii) | Minimum stock level | 1000 | (1) |
| (iii) | Maximum stock | 3000 | (1) |
| (iv) | Re-order quantity | 2000 | (1) |

(b) Analyse possible consequences that may have resulted from the *Type 2 Buggy Wheels* 'stock out' situation at the start of September. [5]

- Level 1** 1-2 Candidate briefly outlines the possible consequences of the stock out situation.
- Level 2** 3-4 Candidate attempts to analyse the possible consequences of the stock out situation.
- Level 3** 5 Candidate fully analyses the possible consequences of the stock out situation.

Possible responses may include:

- Production of that model will have to cease and production schedules reorganised.
- Workers may have to be laid off and sent home if alternative work cannot be found.
- Orders may be late and the firm's reputation may be damaged.
- Orders may be cancelled and profits may fall.

(c) (i) Explain, with the use of a diagram, what is meant by a matrix structure. [4]

- Emphasises getting people with particular specialist skills together into project teams – co-ordination and support of specialist teams.
- Run by project managers who call upon the skills/expertise of specific people in the organisation to help achieve a certain goal.

(2 + 2)

(ii) Outline one argument in favour and one against adopting a matrix structure by a business such as *LiteWeight Buggies Ltd.* [4]

In favour:

- An effective way of organising people because it is based on the expertise and skills of employees and gives scope for people lower down the organisation to use their talents effectively.
- Improves the flexibility and motivation of employees.

Against:

- Can require expensive support systems – extra secretarial and office staff.
- Co-ordination and/or communication problems may occur as people are drawn from different departments. This can also slow down the decision making process.

(2 + 2)

(d) Evaluate James Harrington's proposal to introduce a JIT system at LiteWeight Buggies Ltd. [8]

- Level 1** 1-3 Candidate briefly outlines the features of a JIT system.
- Level 2** 4-6 Candidate attempts to explain the concept of a JIT system and may attempt some evaluation.
- Level 3** 7-8 Candidate fully evaluates the introduction of a JIT system at LiteWeight Buggies Ltd.

Possible responses may include:

In Favour:

- JIT – a production technique which is highly responsive to customer orders and uses very little stock holding.
- It improves cash flow as very little stock is held.
- Waste is reduced as no obsolete or damaged stocks occur.
- Factory space can be freed up for more productive use.
- Costs of stock holding are radically reduced.
- Links with and the control of suppliers are improved.
- More scope for integration within the factory's computer system.
- Motivation is improved as workers are given greater responsibility and encouraged to work in teams (as part of the lean production process)

Against:

- A lot depends on the reliability and flexibility of suppliers.
- Ordering and administration costs are likely to rise.
- Bulk buying advantages may be lost.
- Difficult to cope with sharp, unexpected increases in demand.
- Reputation can be damaged if customers are let down by late deliveries as no buffer stocks are held.
- Extra pressure on staff because of additional responsibility associated with a JIT system.
- Unforeseen interruptions in supply.

- (e) **Discuss the opportunities and difficulties that face businesses, such as LiteWeight Buggies Ltd when attempting to market its products globally.** [10]

Level 1	1-3	Candidate briefly outlines some difficulties and/or opportunities when attempting to operate in the global marketplace.
Level 2	4-7	Candidate attempts to explain possible opportunities and/or difficulties that may occur when attempting to operate in the global marketplace.
Level 3	8-10	Candidate fully evaluates the possible opportunities and/or difficulties that may occur when attempting to operate in the global marketplace.

Possible responses may include:

Opportunities:

- A much **larger potential market** – important as the UK market seems to be saturated.
- An opportunity to earn **greater profits** and thereby grow the business.
- **Spreads the risk** – being in a number of different markets can safeguard against economic downturns.
- **May enhance the business' reputation** – investors may be attracted towards the business.
- **Economies of scale** – marketing economies.

Difficulties:

- Selling abroad can be **more risky** than the domestic market.
- Need to be aware of **government stances and policies** so that marketing is appropriate.
- **Cultural differences** – language, religion, attitude towards advertising, etc.
- **Products may need to be adapted** to suit the requirements in different countries – this could cause margins to be squeezed.
- **Economic factors** such as the general level of income will need to be taken into account so that marketing can be targeted effectively.
- **Differences in business practice.**
- Understanding the **degree of competition** that already exists in the markets being considered – the use of reliable agents who have an understanding of specific markets.
- Exchange rate difficulties.

N.B. This is specifically a question about marketing products not about operating or setting-up. However, several points are likely to be generic and therefore appropriate.

Credit may be given if candidate makes reference to the need for market research to be carried out.

Q.3 To what extent do you agree with the view that an internet website is now the only form of marketing that a successful business requires? [12]

- Level 1** 1-4 Candidate briefly outlines one or two benefits and/or drawbacks of marketing on the internet website.
- 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** 5-8 Candidate attempts to analyse possible benefits of marketing on an internet website and/or drawbacks 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 3** 9-12 Candidate fully evaluates the viewpoint that an internet website is now the only form of marketing that a successful business requires.
- 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

Benefits of marketing via an internet website:

- **Widens potential market** – could lead to increased sales and profits.
- **More and more people shop on the Internet** – 'most buying decisions start at a keyboard' - an increasingly important factor for many firms.
- **Raises awareness** of the existence of a business – gives businesses a competitive edge.
- A well constructed and up to date website can **improve the image** of the business.
- For some businesses it is their core marketing tool, e.g. Amazon.
- Open 24/7.

Drawbacks:

- Can be **expensive** to set up – £10,000 plus is a significant investment for a small business, especially in a recession.
- **May not be cost-effective** – has to generate enough profit to justify the initial expenditure. Does the business have the capacity for increased orders?
- A poorly constructed or out of date website **can project a negative image** of the business and sales may be lost to competitors.
- Not particularly useful where personal service is the key to sales.
- Not all have the internet.
- Technical problems on website can result in loss of reputation and sales.

To some extent it will depend on the nature and size of the business concerned. In a competitive market, where rivals have set up websites, can a business afford not to have a presence on the web?

Few businesses rely solely on their internet website and tend to combine their website with the more traditional market mix.

MARK SCHEME

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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 factors that have contributed to the survival of WH Smith plc since 1996. [8]

Level 1	1-2	The candidate identifies some of the factors that have contributed to the survival of WH Smith plc since 1996.
Level 2	3-5	The candidate explains some of the factors that have contributed to the survival of WH Smith plc since 1996.
Level 3	6-8	The candidate fully explains the factors that have contributed to the survival of WH Smith plc since 1996.

Answers might refer to the following:

- The company sold off its diversified businesses, such as Do-It-All, which helped them to raise the capital needed to expand the core business.
- It also gave the business more focus and allowed it to concentrate in areas where it had expertise and drop areas, e.g. DIY where it did not.
- It bought its main rival, John Menzies, which gave it greater monopoly power in the High Street.
- It opened Post Offices in several of their branches, which would have encouraged greater 'footfall' and, hence, greater sales.
- It opened new outlets in airports, railway stations and motorway service stations, which often gave it a monopoly situation. Franchising.
- It dropped lower margin products, such as DVDs, and concentrated on products with higher profit margins.
- It employed a new CEO who had wide experience with other companies and was able to use that experience to the benefit of WH Smith plc.
- Any other valid response.

Q.2 Assess the importance to WH Smith plc of its mission statement.

[10]

Level 1	1-3	The candidate attempts to analyse/evaluate the importance of its mission statement to WH Smith plc.
Level 2	4-6	The candidate makes a more meaningful analysis/evaluation of the importance of its mission statement to WH Smith plc.
Level 3	7-10	The candidate gives a detailed and well-balanced analysis/evaluation of the importance of its mission statement to WH Smith plc.

Responses might include the following:

- A definition of a mission statement, e.g. a brief statement of a business' purpose and objectives, designed to sum up what the business is about, perhaps with examples from other businesses.
- Reference to WH Smith's mission statement, which states that, its 'business goal is to rebuild our position as Britain's most popular stationer, bookseller and newsagent. We strive to be an outward-facing, customer-focussed, store-responsive organisation that delivers on our promises.'
- The mission statement should act as a focus for the company's activities. It should act as an inspiration to its managers and employees and as a reassurance to its customers.
- The first part of the mission statement clearly states the objective to be number one in the market - the most popular stationer, etc. It is implied here that the focus is no longer on a diverse set of businesses such as DIY and printing.
- To be 'outward-facing' seems to imply that the management will be looking for new challenges and not just carry on in the same old way.
- To be 'customer-focussed' they must understand what their customers want. This implies some degree of market research. It would not be surprising to see them introduce a loyalty card in order to find out more about their customers' buying habits.
- To be 'store-responsive' possibly again refers to meeting customer needs or it could mean that the management intends to be responsive to the requirements of each store and its employees.
- By stating that they deliver on their promises they are re-affirming their determination to be successful in carrying out their business.
- On the other hand, it could be argued that the mission statement is too general and of limited use.

In conclusion, the mission statement is important as long as everyone in the organisation is committed to it. It gives the business a clear focus and should help them to achieve success.

Q.3 Analyse and evaluate the financial performance of WH Smith plc.**[14]**

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

	2008	2009
Net profit Margin	$76/1352 \times 100 = 5.62\%$	$77/1299 \times 100 = 5.93\%$
RONA	$76/161 \times 100 = 21.80\%$	$77/227 \times 100 = 20.56\%$
ROCE (fixed + current assets)	$76/488 \times 100 = 15.57\%$	$77/517 \times 100 = 14.89\%$
ROCE (shareholders' funds + long-term liabilities)	$76/185 \times 100 = 41.08\%$	$77/256 \times 100 = 30.08\%$
Current ratio	$241/303 = 0.8:1$	$286/261 = 1.1:1$
Acid test ratio	$94/303 = 0.31:1$	$145/261 = 0.56:1$
Gearing (long-term liabilities/shareholders funds + long-term liabilities)	$24/161 \times 100 = 14.91\%$	$29/227 \times 100 = 12.78\%$
Gearing (long-term liabilities/shareholders funds + long-term liabilities)	$24/185 \times 100 = 12.97\%$	$29/256 \times 100 = 11.33\%$
Debtor days	18/19	16/17

The net profit margin fell from 5.93% to 5.62%. This is not encouraging and would appear to be a low figure anyway. However, in retailing margins are often low and, as with other ratios, we would need to compare this to other companies in the same industry to see whether this was above or below average.

The figures for RONA seem to be reasonable and have increased, which is encouraging. Both figures for ROCE have increased, the second one considerably. This appears to be because of the fall in shareholders funds between 2007 and 2008. It is not clear what caused this, but it may be that money was returned to shareholders.

The current ratio looks low and has worsened between 2007 and 2008 but as most of the business transactions are in cash, the situation may not be as bad as it looks at first sight. The acid test paints a similar picture with quite a large decline in the ratio, which is well below the ideal of 1:1, but, once again, this may be acceptable in this type of business.

The figure for gearing shows that the company is low-g geared and can afford to borrow more money if it needs capital to expand the business.

Overall, WH Smith plc seem to be reasonably solvent but is not making the sort of profits that one might expect from this type of business.

Q.4 With reference to Porter's Five Forces Framework and the information given in the case study, comment on the present situation of WH Smith plc. [12]

Level 1	1-4	The candidate demonstrates some understanding of Porter's Five Forces Framework and how it may apply to WH Smith plc. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
Level 2	5-8	The candidate demonstrates some sensible analysis/evaluation of the position of WH Smith plc with some reference to Porter's Five Forces Framework. 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	9-12	The candidate is able to analyse and evaluate, in a meaningful way, the present situation of WH Smith plc with reference to Porter's Five Forces Framework. 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.

Answers might include the following:

- An explanation of Porter's Five Force Framework, possibly including a diagram and a discussion of each one in turn.
- Suppliers: the idea from Porter is that a successful business is not dominated by its suppliers. There are some clues in the case study about this. One is the fact that they have decided not to stock low-margin products such as CDs and DVDs. It could be that the suppliers of these products were not willing to give WH Smith plc big enough discounts on these items. On the other hand, they have struck up a deal with Penguin Books, who have agreed to give them a good deal. The company also states that it has appointed a team to build closer relationships with its suppliers. However, the balance sheet indicates that they may be a little slow to pay them as the figure for current liabilities is high.
- Buyers: WH Smith plc aims to balance the needs of all of their customers and whilst stating that they protect the interests of vulnerable groups, particularly children, this has not stopped them from selling half-price chocolate oranges by its tills. Also, they have limited consumer choice as regards the range of travel guides that they sell and the claim that this is because it makes shopping easier for the customer is hard to believe. All of these things show that WH Smith plc do try to exercise control over their customers and is not dominated by the bargaining power of buyers.
- Industry competitors: WH Smith plc bought their nearest rival, John Menzies, which meant that they eliminated a great deal of the competition. They tend not to stock items where they are in direct competition with their competitors, e.g. CDs and DVDs. Also, their franchise agreement in motorway service areas gives them a monopoly position.

- Potential entrants: it would be difficult for a rival business to compete with WH Smith plc as they have so many High Street stores and other stores located in motorway service stations. Also, they have a number of in-store Post Offices which rivals could not emulate.
- Substitutes: WH Smith plc, as already stated, stocks its shelves with high-margin goods, clearly these are ones where there are fewer substitutes.

Overall, according to Porter's Five Force Framework, WH Smith plc is favourably placed in the market as they control their suppliers, are not dominated by the buyers of their products or by industry competitors. They are not greatly threatened by new entrants or substitute products or by industry competitors and they have achieved quite a dominant position in the market.

Q.5 Discuss the view that the policies adopted by WH Smith plc since 2003 has been of benefit to all of its stakeholders. [16]

- | | | |
|----------------|-------|--|
| Level 1 | 1-4 | <p>The candidate makes some attempt to analyse/evaluate the view that the policies adopted by WH Smith plc since 2003 have been of benefit to some/all of its stakeholders.</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 | 5-8 | <p>The candidate makes a reasonable attempt to analyse/evaluate the view that the policies adopted by WH Smith plc since 2003 have been of benefit to some/all of its stakeholders.</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 | 9-12 | <p>The candidate makes a good attempt to analyse and evaluate the view that the policies adopted by WH Smith plc since 2003 have been of benefit to all of its stakeholders.</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 | 13-16 | <p>The candidate makes a well-balanced analysis and evaluation of the view that the policies adopted by WH Smith plc since 2003 have been of benefit to all of its stakeholders.</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> |

Responses might include the following:

- Identification of the company's stakeholders: shareholders, managers, employees, customers, suppliers, the government, the local community and possibly competitors.

- **Shareholders:** seem to have benefited, as the company was at one stage comparable to Woolworths. The company seems to be reasonably profitable and the prospects seem good. The share price increased by about 15% between the end of August and mid-November 2009.
- **Managers:** as the business has expanded, the number of management jobs is likely to have increased although some of those working for the parts of the business that were sold off may have lost their jobs. Management salaries are also likely to be tied to the success of the business.
- **Employees:** the company states that 'our people are respected and valued in an honest, open environment'. Also, the fact that the business seems to be concerned with the labour standards of its suppliers indicates that it is concerned with the well-being of workers. There is no evidence to the contrary, although in general, workers in the retail industry are not paid very well and WH Smith plc is probably no exception.
- **Customers:** the company intends to 'keep the customer at the heart of all that we do.' Clearly, this makes good business sense. However, it is also clear that, in the case of travel guides, consumer choice has been restricted in order to achieve higher profit margins.
- **Suppliers:** the company is trying to build closer relationships with its suppliers. However, the fact that so many of them are in Asia indicates that it does not do so much business with UK suppliers. It also seems that they owe their suppliers a lot of money.
- **The Government:** if the company does well it will pay more in taxes, although many of the products it sells are exempt from VAT.
- **The local community:** is likely to benefit if the company is successful as they employ significant numbers of people. WH Smith plc is not anti-social, it does not create a litter problem and its presence generally improves the standards of the areas in which it is located.

Overall, the shareholders are the most important stakeholders but, apart from those affected by the divestment process, the other stakeholders have generally benefited from the success of the company.

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.

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.

In addition, candidates will be assessed on their Quality of Written Communication in Section B.

SECTION A

Q.1 Explain the advantages to a business, such as British Airways, of using asset-led marketing.

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|----------------|-----|--|
| Level 1 | 1-2 | The candidate demonstrates some understanding of the advantages of asset-led marketing. |
| Level 2 | 3-4 | The candidate demonstrates good understanding of the advantages of asset-led marketing. |
| Level 3 | 5-6 | The candidate demonstrates excellent understanding of the advantages of asset-led marketing. |

Answers might include the following:

A definition of asset-led marketing, i.e. "a marketing strategy based on a firm's strengths not solely on the customers' needs".

An asset-led marketing strategy will begin by a business looking at its strengths and asking itself how it can build on them. For example, a business that already had a reputation for producing one product may develop another one that takes advantage of that reputation, e.g. the makers of Marmite have produced marmite flavoured rice cakes.

The cost of market research may be less.

Likelihood of success likely to be greater.

In the case of British Airways, mentioned in the stem to the question, they have a reputation as a provider of long-haul flights to business customers. They might therefore develop a marketing strategy that appeals to this group of customers offering them free holiday flights for family members if business flights are booked with BA.

Candidates should be rewarded for giving any suitable examples.

Q.2 (a) Calculate the value of the machine after three years.

1. Depreciation allowance = $\frac{\text{Original cost} - \text{residual value}}{\text{Expected life (years)}} (1)$
2. $\frac{\pounds 8000 - \pounds 2400}{8} = \pounds 700 (1)$
3. Depreciation of machines after 3 years, $\pounds 700 \times 3 = \pounds 2100 (1)$
4. Value of machines = $\pounds 8000 - \pounds 2100 = \pounds 5900 (1)$

Award 4 marks for £5900. Use OFR.

(b) Consider the various outcomes that might arise from this situation. [6]

- | | | |
|----------------|-----|--|
| Level 1 | 1-2 | The candidate suggests one or two simple scenarios. |
| Level 2 | 3-4 | The candidate demonstrates greater understanding of the possible outcomes. |
| Level 3 | 5-6 | The candidate demonstrates excellent understanding of various possible outcomes. |

Possible outcomes:

- The union will use industrial action, e.g. work-to-rule, strikes, occupation of the premises in order to put pressure on the company to reinstate the two workers.
- The company may offer generous redundancy packages to the two men who might then accept the offer.
- The situation might go to arbitration and ACAS is called in.
- The union might insist on a first-in, last-out policy or one of natural wastage, i.e. wait until someone leaves the company and not replace them.

Any other valid suggestion.

Q.3 (a) Use the information provided to create a decision tree diagram and recommend which one of these media the company would be best advised to use. [7]

Accurate diagram up to two marks.

Success (1) Failure (1) Correct total (1) Less Cost (1) Conclusion (1)

Sunday Paper	success	=	£360,000
	failure	=	£48,000
	Total	=	£408,000 - £120,000 = £288,000

Radio	success	=	£280,000
	failure	=	£90,000
	Total	=	£370,000 - £100,000 = £270,000

Direct Mail	success	=	£250,000
	failure	=	£50,000
	Total	=	£300,000 - £70,000 = £230,000

Therefore, on the basis of these figures alone, they should choose the Sunday Paper.

(b) Evaluate the usefulness of decision trees to, a company such as, GG Adventure Holidays Ltd. [8]

- | | | |
|----------------|-----|--|
| Level 1 | 1-2 | The candidate identifies one or two benefits/drawbacks of using decision trees. |
| Level 2 | 3-5 | The candidate explains possible benefits/drawbacks of using decision trees and may attempt evaluation. |
| Level 3 | 6-8 | The candidate fully evaluates the use of decision trees to GG Adventure Holidays Ltd. |

Possible responses may include:

Advantages:

- The fact that decision trees force managers to work out the probability of each outcome and its potential payoff.
- Decision trees give a visual representation of the problem which is easy to understand.
- Decision trees are a quantitative method of decision making.

Disadvantages:

- They do not take into account qualitative factors.
- Probabilities are, in reality, difficult to predict and may reflect bias.
- There may be other options that are not included in the decision tree.

As far as GG Adventure Holidays is concerned the decision tree may not suggest to the company that it should be making a greater effort to target customers who are interested in adventure holidays and as all three options were very close it would have been difficult to choose between them.

Q.4 (a) Calculate the price elasticity of demand for a set of Harry's best golf clubs if he decides to lower their price from £500 to £450. [3]

The percentage change in quantity demanded divided by the percentage change in price or use of formula. (1)

$$(15/200 \times 100) / 50/500 \times 100 \quad (1)$$

$$= 7.5/10 \quad (1)$$

$$= 0.75 \text{ or } -0.75 \quad (1)$$

Maximum of 3 to include the correct answer.

(b) Discuss the view that the theory of elasticity of demand is of little practical use to businesses such as Peters Sports Ltd.

Level 1 1-2 The candidate make some attempt to evaluate the use of elasticity theory to a business.

Level 2 3-4 The candidate makes a reasonable attempt to evaluate the use of elasticity theory to a business.

Level 3 5-6 The candidate gives a full and well-balanced evaluation of the use of elasticity theory to a business.

Answers might include the following:

Elasticity of demand is a measure of the responsive of demand to changes in price or income.

In the case of price elasticity the relationship is converse, i.e., if the price rise the quantity demanded will fall, whereas with income elasticity the relationship is normally direct (with the exception of inferior goods).

Few businesses will formally calculate elasticity but experience should tell them how changes in price and income will effect the demand for their goods.

For instance, if a business has surplus stock it is likely that it will put the items on sale. The business must have some idea as to the amount of reduction that they should offer. If they lower the price by a small amount and the stock still doesn't sell they will realise that further reductions are necessary. In this instance the demand is not very responsive to changes in price, i.e. it is inelastic.

If businesses have a good idea of the price elasticity of demand of a good they will know if they should raise or lower prices to raise revenue. To increase revenue they can raise prices if demand for a good is inelastic and lower them if price is elastic. In the table lowering prices from £550 to £500 gives Harry less revenue (£100,000 - £96,750 = £3,250 less. If he increases price from £500 to £550 he would gain revenue £100,000 - £101,750 = £1,750. Generally, if there are close substitutes for a good or service then a business should lower prices to raise revenue. Many businesses would not be able to calculate elasticity but would have some understanding of whether or not demand is elastic or inelastic.

Similarly businesses should know if demand will rise or fall, and by how much, should incomes rise or fall. If not they may find that they have items that do not sell, i.e. inferior goods, or insufficient supplies if demand rises beyond the level that they had anticipated.

The lower the income elasticity of demand i.e. the more inelastic the demand the less a businesses' sales are affected by changes in consumer income.

In conclusion, it might be said that whilst businesses such as Peters Sports do not formally calculate elasticity, in order to be successful they will need to act in accordance with the predictions of the theory. As such the theory is useful in explaining the way that they behave

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 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 Consider the view that cuts in taxation are likely to benefit all UK businesses.

[20]

Possible answers may include:

Cuts in direct business taxes are likely to increase profits and, as a result, they can either distribute more money to their shareholders or invest more money in their businesses.

Cuts in direct personal taxes are likely to result in increased household expenditure, which will tend to increase the sales of many businesses, particularly in the retail sector.

Cuts in indirect taxation will tend to increase the sales of those items, which are subject to tax, as happened when VAT was reduced from 17.5 to 15%. As effective household incomes rise most businesses will gain sales particularly those for whose products demand is most elastic.

Some businesses are likely to be less affected by cuts in taxation than others, for instance if demand is inelastic, e.g. in the case of necessities people will not buy more if the price falls or if their incomes rise.

It may be that the cuts in taxation lead to cuts in public expenditure, in which case many businesses, with contracts with the public sector are likely to suffer. The cuts in public expenditure will have a knock on effect (multiplier effect) on the private sector.

Cuts in taxation may lead to inflationary pressures, which will be detrimental to many businesses.

On balance most businesses will benefit.

Q.6 "The ability to adapt to changes in the external environment is the key to business success." Discuss. [20]

Possible answers may include:

Changes in the external environment may include political, economic, social and technological change as well as legal and environmental factors. These changes can have serious implications for a business's survival and success.

An example of political change might be the election of a new government which was committed to reducing the size of the public sector, this would mean that businesses with significant public sector contracts would need look to the private sector for new business.

Economic change might be changes in interest rates, in which case highly geared companies would need to look at reducing their borrowings or inflation which might require them to pass on increased costs to the consumer.

Social change can affect the market for different types of products, e.g. manufacturers of traditional toys might need to produce more electronic toys in order to appeal to a new generation of children.

Technological change may make products and production processes outdated with consequent impact on employment in affected industries.

If a business does not take into account changes in the law it may end up being prosecuted and fined: this is not only costly it may also impact on their reputation.

Companies are becoming increasingly aware of the need to be environmentally friendly for legal and 'image' reasons.

Failure to adapt to these changes can be more harmful to some businesses than others, for example an oil company will be under pressure to respond to environmental pressures, whereas a bank will be less constrained.

In certain circumstances the statement is literally true, however, for many businesses the key to success will lie in meeting their customers' expectations. Candidates should focus on the question but some will look to other factors that they deem to be important to success and some credit can be given for this analysis.

Any other valid answer should be rewarded.

Q.7 "The shareholders of a business are the most important of all of the stakeholders". Discuss.

[20]

Possible answers may include:

An outline of who the stakeholders are: customers, suppliers, workers, managers, shareholders, the local community, the government, competitors, etc.

A discussion of the importance of each in turn:

Customers are essential to a business and their expectations need to be met if a business is to succeed.

Reliable suppliers are often key to a business' success, particularly in terms of quality.

Workers are often referred to as the most important resource of a business, recent cases of strikes at British Airways illustrate the perils of not having a harmonious relationship with the workforce.

Managers play a key role in business success in making sure that the organisation fulfils its goals.

Shareholders provide much of the finance for a company and expect to be rewarded for doing so. If not they may replace the board and the directors.

The local community are often less important in a business's eyes, but nevertheless they will want to have good relations with them.

The government needs to be satisfied that the company is operating in the way that it should.

It would be difficult to argue that the shareholders are the most important stakeholders, although ultimately as the owners they have considerable power over how the business operates. Ultimately the interests of all stakeholders need to be balanced.



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