



# **GCE MARKING SCHEME**

## **BUSINESS STUDIES AS/Advanced**

**JANUARY 2011**

## **INTRODUCTION**

The marking schemes which follow were those used by WJEC for the January 2011 examination in GCE BUSINESS STUDIES. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

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

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

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## **BS1**

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 With the aid of examples distinguish between *needs and wants*. [4]**

Level 1 1-2 Candidate is able to distinguish between needs and wants.

Level 2 3-4 Candidate is able to explain the difference between needs and wants using appropriate examples.

Candidates who only deal appropriately with either needs or wants will only be Level 1.

Candidates can be awarded four marks if the difference is implicit e.g. they define both accurately with appropriate examples.

Answers may refer to:

People have a limited number of needs which must be satisfied if they are to survive (1) these would include physical needs such as, a minimum amount of food, water, shelter and clothing. (1) and psychological and emotional needs e.g. self-esteem and love (1).

Wants are unlimited (infinite) people constantly aim for a better quality of life (1) include better/more food, better housing, longer holidays, better education, entertainment - in effect any example which is not a basic need (1).

**Q.2 Explain, with the aid of examples, the meaning of *diseconomies of scale*. [4]**

Candidate may make distinction between internal and external diseconomies of scale though this is not necessary to secure full marks.

Appropriate definition/explanation which may include a diagram (2) plus examples (2).

Answers may refer to:

Internal diseconomies of scale occur where the average cost (unit cost) increases as output expands (in the long run). (2) These occur when a firm becomes very large (1)

Mainly due to management problems. May be due to problems in relation to communication, co-ordination, control and employee morale. Communication becomes more complex and co-ordination is more difficult and control is weakened because a large firm is divided into departments. Morale may suffer as individual workers become a minor part of the total workforce. (2)

External diseconomies of scale may occur from over crowding in industrial areas (2) The price of land, labour, services and materials may rise as firms compete for a limited amount. (1) Congestion might lead to inefficiency. (1)

**Q.3 (a) With the aid of examples, distinguish between quantitative and qualitative market research. [6]**

Level 1	1-2	Candidate can describe either quantitative or qualitative market research possibly with an example.
Level 2	3-4	Candidate is able to outline difference between quantitative and qualitative market research and may give examples of quantitative and qualitative data.
Level 3	5-6	Candidate is able to explain the difference between quantitative and qualitative market research using appropriate examples.

Answers may refer to:

Quantitative research

Involves the collection of data that can be measured.

- This means the collection of statistical data such as sales figures and market share. *Surveys and the use of government publications/existing statistics* are common methods of collecting quantitative research data.
- Researcher uses tools, such as *questionnaires and surveys* to collect numerical data.
- Researcher knows clearly in advance what he/she is looking for.
- Recommended during latter phases of research projects.
- Is usually regarded to be less open to interpretation than qualitative data (objective).
- Data is in the form of numbers and statistics.

Qualitative research

Involves collection of data about attitudes, beliefs and intentions.

- *Focus groups, participant observation and interviews* are common methods used to collect qualitative data.
- Researcher may only know roughly in advance what he/she is looking for.
- Recommended during earlier phases of research projects.
- Can be time consuming to collect and may be difficult to draw general conclusions.
- Information gathered is often open to high degree of interpretation (subjective) and so there is often disagreements within business about the significance and importance of qualitative data.
- Data is in the form of words, pictures or objects.

**(b) Consider the reasons for and against carrying out extensive market research. [8]**

Level 1	1-2	Candidate identifies reasons for or against carrying out market research.
Level 2	3-5	Candidate attempts to explain reasons for and/or against market research.
Level 3	6-8	Candidate fully explains reasons for and against market research.

Maximum of 5 if only deal with advantages or disadvantages.

Reasons for

- An aid to decision making - helps to make informed decisions especially important in fast changing markets.
- To find out about customer wants and expectations.
- To suggest introduction of new products, modification of existing products.
- To find out how much customers are willing to pay/developing pricing strategies.
- To gain competitive advantage/keep pace with competitors/find out what they are doing.
- Predictive reasons - what is likely to happen in the future.
- Exploratory reasons - investigating new possibilities in a market.
- Descriptive reasons - what is happening in the market? Who is buying which products in our portfolio?
- Explanatory reasons - why have sales fallen in the last six months in Wales?
- Carrying out market research means that consumers may feel that their views are being considered.
- Reduces risk - without market research a business may spend large sums of money developing and launching unsuccessful products.

Reason against

- Market research may predict that an idea/product will succeed but this is not always the case - primary research depends upon responses of consumers who may not respond in the same manner in the future.
- Data can be based on an unrepresentative sample - sampling discrepancies caused by statistical bias. A poorly constructed questionnaire can also lead to bias.
- In secondary research, data does not always meet specific needs of a business.
- Primary research can be expensive to gather and businesses may have to pay for secondary research.
- Secondary data can be outdated - especially problematic in fast-changing industries.
- Research data, especially primary can be time consuming to gather.

**Q.4 (a) Using the information above distinguish between merit goods and public goods. [4]**

Level 1 1-2 Candidate is able to distinguish between merit goods and public goods.

Level 2 3-4 Candidate is able to explain the difference between merit goods and public goods using appropriate examples.

Candidates who only deal appropriately with either merit goods or public goods will only be Level 1.

Candidates can be awarded four marks if the difference is implicit e.g. they define both accurately with appropriate examples.

Public goods are goods that would not be provided in a free market system, because firms would not be able to charge for them. Public goods have two main characteristics - they are non-excludable (if provided cannot exclude people from consuming them - "free riders") and are non diminishable - (consumption by one person does not reduce the amount available to the next person).

Examples include *defence, Social Protection - police, street lighting (from the data)*, flood control, lighthouses, public water supplies.

Merit goods are goods that could be provided by the free market but policy makers recognise that they would be under-consumed. There are external benefits in providing these goods and services and they are provided free of charge by the Government *e.g. education and health (from the data)* and libraries.

**(b) How do the aims and objectives of the public sector differ from those of the private sector? [6]**

Level 1	1-2	Candidate is able to identify the aims and objectives of either the private sector or the public sector.
Level 2	3-4	Candidate is able to explain how the aims and objectives of the private sector differ from those of the public sector.
Level 3	5-6	Candidate fully explains how the aims and objectives of the private sector differ from those of the public sector and may consider their similarities.

Answers may refer to:

The aims and objectives of the private sector might include, survival, profit maximisation, growth, maximising sales revenue, increasing share value.

(The private sector includes all these businesses which are set up by individuals or groups of individuals e.g. sole traders, partnerships, companies, charities and co-operatives.)

The public sector's aims and objectives include, providing a public service to all e.g. BBC, provision of goods and services that the private sector might not provide e.g. public goods like defence or under provide e.g. merit goods like health and education.

(The public sector is essentially business activity that is owned/run by the government for the benefit of everyone e.g. army, police force, schools, hospitals.)

N.B. Some candidates may point out that in some instances aims and objectives are not dissimilar e.g. business in private sector seek to make a profit but in the public sector there is a need to aim for surpluses, be cost efficient and provide the best possible service.

**Q.5 Explain the impact of rapid technological change on businesses, such as Amazon.com, and their customers. [8]**

Level 1	1-2	Candidate identifies one or two valid points.
Level 2	3-5	Candidate explains impact on businesses and/or their customers.
Level 3	6-8	Candidate fully explains impact on businesses and their customers.

Impact of technological change on businesses

- Cost involved in having to frequently change and maintain machines.
- Increase productivity - more can be produced with less resources and as a result more profit can be made.
- New technology often results in time being saved and fewer materials being used e.g. printing machines which waste less paper - reducing waste.
- Improving the working environment - safer working environment in manufacturing Modern equipment has made work easier and more tolerable.
- Technology leads to reduction in staffing needs - cost savings to businesses but leading to unemployment for members of staff.
- Need for re-training as new skills are required.
- Reduced employment levels as a result of technological change leading to lower costs.
- Easier to order - 24 hour shopping.
- More rapid delivery of goods.

Impact of technological change on customers

- Rapid technological change and innovation has given customers wider choice of products e.g. in terms of computer games, phones, cameras and possibly higher standard of living.
- Much of the technological change has occurred in ICT resulting in improved speed of communications.
- Existing products become obsolete more quickly.

**Q.6 Franchising, as used by Lighterlife, is a popular way of expanding a business, it brings benefits to the franchisor and the franchisee but few, if any, disadvantages. To what extent do you agree with this statement? [10]**

Candidates will be expected to consider the benefits to the franchisor and the franchisee of franchising and the disadvantages that both may face.

Level 1 1-3 Candidate identifies relevant benefits and/or disadvantages.

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 and/or disadvantages for franchisor and franchisee 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 statement.

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 to the franchisor

- Extra commitment from franchisees.
- Able to expand the market and sales quickly.
- Increased revenues, e.g. in the form of monthly royalties which have to be paid even if franchisee makes a loss.
- Risks and uncertainty are shared.
- Initial fee, e.g. of £12 000 in the case of the Lighterlife.
- Expansion can be achieved relatively cheaply.

#### Benefits to the franchisee

- May be supported by national advertising/promotion.
- Reduced risk of failure as they are selling an already proven product or service.
- Support is offered by franchisor e.g. in the case of Lighterlife, full training, and start-up equipment such as materials and weighing scales.
- Retaining degree of independence.

#### Disadvantages for franchisor

- Franchisees may not operate in a satisfactory manner and the reputation of the business may be damaged. Bad PR may result.
- Must ensure that the franchise agreements are carefully drawn up or disputes could occur.
- Could Lighterlife effectively recruit, support and service over 270 franchisees? If not dissatisfaction and poor practice could result.
- Does not have complete control of the day to day running of the business.

#### Disadvantages for franchisee

- Cannot operate with same level of freedom as an ordinary business because of the franchise agreement.
- Franchisee cannot sell the business without the franchisor's permission.
- In some franchises the franchisor can end the franchise without reason or compensation.
- Franchisee has to make regular payments to the franchisor.

## **BS2**

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### **Quality of written communication**

The QWC is assessed in question 3(e).

**Q.1 (a) (i) What is meant by a price skimming strategy? [3]**

Market skimming (creaming) involves charging a high price for a product (1) which has a unique selling point (USP) for a limited period (1).

This involves selling a product to the most profitable segment of the market before it is sold to a wider market at a lower price. (1)

**(ii) Explain why Google adopted a price-skimming strategy when it introduced the Nexus One. [4]**

- To take advantage of the newness of the product and gain as much revenue/profit as possible while it remains unique in the market i.e. before competitors come into the market with a similar product. (2)
- To generate revenue in a short period of time so that high R&D costs can be recovered quickly and/or further investment in the product can be made or to cover launch costs/R&D costs (2)

**(b) Why is it so important to Google that the Nexus One becomes one of the leading brands in this very competitive market? [6]**

**Level 1** 1-2 The candidate briefly outlines one or two reasons why this is so important to Google.

**Level 2** 3-4 The candidate attempts to explain one or more reasons why this is so important to Google.

**Level 3** 5-6 The candidate fully analyses two or more reasons why this is so important to Google.

Possible responses may include:

- To create brand loyalty - important as it encourages repeat purchasing by loyal customers and will increase market share.
- To differentiate the product - important to be able to clearly distinguish the product in a market where products can be fairly similar.
- To gain flexibility when making pricing decisions - important as prices can be raised without significant loss in revenue. Competitors have to discount heavily to attract customers away from their preferred brand.
- To help recognition - important as this might mean that customers trust a product that they instantly recognize and are therefore more willing to buy it.
- To develop a brand image - important because if customers have a strong desire to be associated with the brand then they are likely to pay significant price premiums in order to get the brand of their choice.
- Might damage Google's reputation if the Nexus is not successful.

**Q.2 (a) (i) What is a 'distribution channel'? [2]**

The route/chain/path taken by a product (1) as it passes from producer to the ultimate/final consumer (1).

**(ii) Explain the possible benefits to Sigma 3 of the distribution channels that it uses. [6]**

**Level 1** 1-2 The candidate briefly describes one or two possible benefits in general terms.

**Level 2** 3-4 The candidate attempts to explain at least two benefits of the distribution channels used.

**Level 3** 5-6 The candidate fully analyses possible benefits of the distribution channels used.

Possible responses may include:

- Factory – Sigma 3 retail showrooms – customer's home. Direct control over the whole process. Easier to maintain quality of service and ensure customer satisfaction at each stage. Use their own staff who are likely to be well-trained. Enables Sigma 3 to keep a greater share of the profit.
- Factory – house builders - customer. Large potential market if contract with a developer can be signed. Show homes can be very good marketing/promotional vehicle for the company's products.
- Factory – independent retail showrooms – customer. Sigma 3 does not have to bear the cost of the retail outlet. Allows the products to be displayed to a much wider potential market on a nationwide basis.
- Having three distribution channels means they have the ability to reach a wider potential market. Access.

**(b) How can a business, such as Sigma 3, ensure that it maintains its reputation for providing 'quality' products and services? [9]**

<b>Level 1</b>	1-3	The candidate briefly outlines one or two relevant points as to how a business might be able to ensure that it maintains its reputation for 'quality'.
<b>Level 2</b>	4-6	The candidate attempts to explain how a business might be able to ensure that it maintains its reputation for providing quality products and services.
<b>Level 3</b>	7-9	The candidate fully explains how a business might be able to ensure that it maintains its reputation for providing quality products and services and applies their explanation to Sigma3.

Possible responses may include:

- Quality could be described as those features of a product or service that allows it to satisfy customer wants.
- Use good quality raw materials that will ensure both reliability and durability.
- Keep up to date with any developments in the market in which they operate both in terms of the technical developments and production processes.
- Ensure that staff and sub-contractors are well trained and capable of carrying out their tasks effectively.
- Maintain effective after sales service in terms of delivery, speed of response and availability of parts, etc.
- To maintain the image of their retail outlets and ensure that customers are impressed with the service that they receive.
- Adopt various quality initiatives - TQM, Kaizen, zero defects, quality circles, quality chains, benchmarking, etc.
- Undertake market research on a regular basis to gain customer feedback in relation to the quality of their service.
- Ensure that the workforce is well motivated in order that they provide quality workmanship and good customer service.

**(c) Evaluate the view that the provision of quality goods and services is by far the most important element of Sigma3's marketing mix. [8]**

<b>Level 1</b>	1-3	The candidate briefly outlines one or two relevant points in relation to the importance of the provision of quality goods and services.
<b>Level 2</b>	4-6	The candidate attempts to explain the importance of the provision of quality goods and services to Sigma3 and may attempt some evaluation.
<b>Level 3</b>	7-8	The candidate fully evaluates the viewpoint in relation to Sigma 3.

Possible responses may include:

- The concept of quality is central to the image of Sigma3 - they are at the expensive end of the market and therefore cannot allow their reputation to be damaged by either poor quality or poor quality service.
- One of their aims is to be the very best in the industry - Bethan Banfield's quote.
- Customers will not repeat purchase if the quality is poor - lost revenue in the longer run - word of mouth.
- Independent retail studios and the house builders will not stock or use Sigma3's products if they cannot be relied upon, as their own reputation will be damaged.

However,

- The price for its products must be set at the right level. Too cheap and it will not fit in with the image of the business: too expensive and they may lose some customers.
- The place where the products are sold/displayed is important - prestigious showrooms, independent retail studios, show homes. A wide geographical spread is important in order to allow people to access the products.
- The promotion of its products and service is also important in maintaining the right image as well as informing the customers of Sigma3's existence. Well designed website and impressive brochures.

NB - the best answers will be fully applied to Sigma3 and provide a balanced and logically argued response.

**Q.3 (a) Using the figures in Table 1, calculate how many more meals per month The White Fox has to sell to break-even when compared with The Grange. [4]**

- Correct formula – fixed costs/contribution (1)
- Break even for White Fox – 600 meals (1)
- Break even for Grange – 550 meals (1)
- 50 more meals needed (1)

**(b) Consider both the benefits and drawbacks of budgeting to Steve Rogers' business. [8]**

**Level 1**    1-2    The candidate identifies one or two benefits and/or drawbacks of constructing budgets.

**Level 2**    3-5    The candidate attempts to explain at least two benefits and/or drawbacks of constructing budgets.

**Level 3**    6-8    The candidate fully evaluates the usefulness of constructing budgets for Steve Rogers' business.

Possible responses may include:

Benefits:

- A means of controlling income and expenditure.
- Regulate the spending of money and highlight losses, waste and inefficiency.
- They act as a review (Steve's six monthly meetings) and allow time for corrective action to take place.
- They allow delegation without loss of control – subordinates can be set their own targets.
- They help in the co-ordination of a business and improve communication between different sections of the business.
- Budgets provide clear targets to be met and should help employees to focus on costs.
- Can act as a motivator for staff when budget is met.

Drawbacks:

- They can be time consuming for managers in small businesses; especially for those who are not particularly numerate.
- Some personnel can resent having to meet budget targets that they have had no part in constructing. Poor motivation and missed targets can result.
- If the actual figures are very different from the budgeted ones the budget can lose its significance.
- The budget must not be too inflexible as business opportunities might be missed.
- Poorly constructed budgets can lead to poor decision making.

**(c) Explain two advantages to Steve of setting up one purchasing department for all of his restaurants. [4]**

**Level 1** 1-2 The candidate identifies one or two advantages of setting up one purchasing department for all of Steve's restaurants.

**Level 2** 3-4 The candidate explains one or two advantages of setting up one purchasing department for all of Steve's restaurants.

Possible responses may include:

- To ensure the purchase of quality and consistency of goods and materials that the restaurant requires in order to maintain the reputation they have gained.
- Specialist purchasing managers can be employed who have qualifications and experience in sourcing materials.
- The business is more likely to be able to purchase the goods and materials that the business requires at the most competitive prices.
- The business can take advantages of economies of scale – bulk purchasing, management economies.
- To ensure that they do not run out of any ingredients or other materials – could result in a limited menu or disappointed customers.
- The business can build up close relationships with suppliers to ensure reliability.
- To ensure that too much stock is not purchased, reducing waste.

**(d) Explain what is meant by Anna's Theory X approach to the management of her staff. [4]**

**Level 1** 1-2 The candidate briefly describes one or two characteristics.

**Level 2** 3-4 The candidate fully explains the meaning of Anna's Theory X approach to the management of her staff.

Possible responses may include:

Theory X managers believe:

- Workers are motivated by money
- Workers are lazy and dislike work
  - Workers are selfish, ignore the needs of organizations, avoid responsibility and lack ambition.
- Workers need to be controlled and directed by management.

**(e) Evaluate various ways in which Anna could improve the motivation of her staff. [12]**

<b>Level 1</b>	1-4	<p>The candidate outlines one or two ways in which Anna could improve the motivation of her staff.</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>
<b>Level 2</b>	5-8	<p>The candidate explains ways in which Anna could improve the motivation of her staff and may attempt some evaluation.</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 these are not sufficient to suggest a weakness</p>
<b>Level 3</b>	9-12	<p>The candidate fully evaluates ways in which Anna could improve the motivation of her staff.</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>

Possible responses may include:

- Job enlargement – prevents boredom and encourages employees' satisfaction as they are completing an entire process. However, some managers argue that allowing workers to complete whole tasks will reduce efficiency. This is because workers are much quicker when they focus on specific tasks and carry them out repeatedly. The types of tasks required in a restaurant may not lend themselves to this policy.
- Job rotation – giving workers different jobs to do from time to time to reduce their boredom and give them greater experience. In addition, Anna might benefit from having a more widely trained workforce with greater flexibility. This will take a lot of time to train the workers and they will take time to settle in. It may also cost money. They might also be simply swapping one boring job for another.
- Job enrichment – gives the employee a greater challenge and helps them to develop new skills which could lead to promotion. Will require Anna to delegate which she will find difficult. Not all workers respond well to extra responsibility and some may feel out of their depth. Some may also resent doing extra work for the same pay.
- Empowerment/ delegating specific tasks that Anna would normally do herself. Anna runs the risk that they will not be done as well as she might do them and will have to closely supervise them initially. Long term benefits as she can have important jobs covered when she is absent.

- Set up a reward system for performance. Might have cost implications and could cause unwanted rivalry. They are already well paid, for example, a bonus system.
- Change her attitude towards the workers and consult them more. May not be in her nature to do this.
- Employee of the month. May have repercussions in terms of resentment by those who are overlooked.
- Any other valid method of motivating her staff that is applied to the restaurant environment and sensibly evaluated.
- Reference to motivational theorists is to be credited but is not essential to achieve Level 3.

(NB Top answers will be applied to the Case Study and fully evaluated).

### **BS3**

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#### **Levels of Response**

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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 questions 4 and 5.

**Q.1 Explain the benefits to Greggs plc of its vision and values. [8]**

<b>Level 1</b>	1-2	The candidate demonstrates some knowledge of the benefits of a business's vision and values.
<b>Level 2</b>	3-5	The candidate explains some of the benefits to Greggs plc of its vision and values.
<b>Level 3</b>	6-8	The candidate fully explains the benefits to Greggs plc of its vision and values.

Answers might include to the following:

- By having a clear vision (mission statement) everyone in the business knows where it is going. It helps to motivate both management and staff. Consistently in service throughout.
- Greggs plc aim is to be the number-one bakery outlet; to provide its customers with what they want. By being customer-orientated, they should guarantee continued sales in the future.
- Greggs plc also believe that it is important to look after its staff. This is part of the business's heritage as a family business and is very important as the staff feel that they are part of the 'family' or team and so will be more loyal and be happier in their work.
- Greggs plc values should ensure that the reputation of the business remains high.
- Greggs plc aims to play its part in the community, which reinforces the business's image as being friendly and responsible. People will then feel happier buying its products.
- It also aims to give a good return to its shareholders, which means that it should have no trouble raising money should it need to in the future and that control of the business should remain firmly in the hands of the existing management.
- Without this vision and values, the business would be less focussed and, hence, less successful. They give it a strong sense of identity and purpose.
- Reference to strong culture.
- Opportunity to be a price leader.

**Q.2 Explain the advantages and disadvantages to Greggs plc of growing both organically and by acquisition. [12]**

<b>Level 1</b>	1-4	The candidate demonstrates some understanding of the advantages and disadvantages to Greggs plc of growing organically and by acquisition.
<b>Level 2</b>	5-8	The candidate demonstrates good understanding of the advantages and disadvantages to Greggs plc of growing organically and by acquisition.
<b>Level 3</b>	9-12	The candidate demonstrates excellent understanding of the advantages and disadvantages to Greggs plc of growing organically and by acquisition.

Answers might refer to the following:

- An explanation of the terms 'organically' and 'by acquisition' with relevant examples, e.g. between 1972 and 1986 Greggs acquired bakery chains throughout the United Kingdom as well as buying the bakery interests of Allied Bakeries.
- Both types of growth have allowed Greggs to benefit from economies of scale including purchasing and advertising economies.
- Also, by being vertically integrated (forward and backward) and producing the products that it sells in shops, it is both able to maintain low prices and guarantee consistency and quality. Also horizontal integration.

Advantages of organic growth:

- Such growth is focussed exactly on the needs of the business. It can take place slowly over a period of time so that there is no strain on the business's finances. Areas for growth can be targeted in order to give balanced geographical coverage.

Disadvantages of organic growth:

- It can be a slow process during which time rival businesses or new entrants can take over the potential market. Potential for diseconomies scale.

Advantages of growth by acquisition:

- It is usually faster than organic growth as the businesses already exist. It may give good market coverage where none existed before. It may help to inject new ideas into the business and experienced personnel can also benefit the business. Managerial economies of scale can be achieved by amalgamating certain functions. Cost savings through rationalisation. Other synergies. Rapid increase in capacity.

Disadvantages of growth by acquisition:

- There may be clashes of culture between the organisations. It can be very expensive and put a strain on the business's finances (e.g. an increase in gearing). It may take a long time to properly integrate the two businesses. Potential for diseconomies of scale.

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

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

	<b>2008</b>	<b>2007</b>
Gross Profit Margin	$396/636 \times 100 = 62.26$	$367/588 \times 100 = 62.41$
Net Profit Margin	$49/636 = 7.70\%$	$49/588 \times 100 = 8.33\%$
RONA	$49/147 \times 100 = 33.33\%$	$49/145 \times 100 = 33.79\%$
ROCE (fixed + current assets)	$49/256 \times 100 = 19.14\%$	$49/245 \times 100 = 20\%$
ROCE (shareholders' funds + long-term liabilities)	$49/175 \times 100 = 28\%$	$49/161 \times 100 = 30.43\%$
Current ratio	$39/81 = 0.48:1$	$42/84 = 0.5:1$
Acid test ratio	$27/81 = 0.33:1$	$32/84 = 0.38:1$
Gearing (long-term liabilities/shareholders' funds)	$28/147 \times 100 = 19.04\%$	$16/145 \times 100 = 11.03\%$
Gearing (long-term liabilities/shareholders funds + long-term liabilities)	$28/175 \times 100 = 16.0\%$	$16/161 \times 100 = 9.93\%$
Debtor days	13.2	12.4

The gross profit margin fell slightly from 62.41% to 62.26%. This is hardly significant and would appear in both years to represent a very satisfactory level of profit. The net profit margin fell slightly from 8.33% to 7.7%. This is less encouraging and would appear to be a low figure considering the size of the gross profit margin. One is tempted to conclude that expenses are too high, but that may be the nature of this vertically integrated business where overheads are large. Other retailing businesses often operate with low net profit margins so this might not be as bad as it seems. 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 only fallen marginally which is probably satisfactory (N.B. this ratio is not in the specification so its absence should not be penalised). Both figures for ROCE have fallen slightly but are, nevertheless, very healthy compared to current interest rates.

The current ratio looks low and has worsened slightly between 2007 and 2008 but, as all of the sales 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 figures 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, Greggs plc seem to be performing well. They seem to have their finances well under control and are in a position to borrow money should they need it in order to fund their proposed expansion programme.

**Q.4 Analyse the ways in which Greggs plc might be affected by changes in macro-economic factors such as changes in taxation, interest rates and the business cycle. [13]**

<b>Level 1</b>	1-4	The candidate makes some attempt to analyse the ways in which Greggs plc might be affected by changes in macro-economic factors.  Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
<b>Level 2</b>	5-8	The candidate makes a reasonable attempt to analyse the ways in which Greggs plc might be affected by changes in macro-economic factors.  Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
<b>Level 3</b>	9-13	The candidates makes a well-balanced analysis of the ways in which Greggs plc might be affected by changes in macro-economic factors.  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:

**Effects of taxation**

Increases in corporation tax will mean less money to be either retained in the business or distributed to shareholders. If income tax rises, consumers will have less disposable income to spend which might affect sales with some customers deciding to make their own sandwiches, etc. Although VAT is not raised on food, it will apply to some of the products sold by Greggs plc. Increases in duty on fuel will affect Greggs' cost base.

**Effects of changes in interest rates**

As Greggs is relatively low-gearred, a small increase in interest rates should not affect them too seriously. However, big rises in interest rates can affect consumer spending and this may have a negative effect on Greggs' sales.

**Effects of the business cycle**

Since Greggs sales represent a fairly small proportion of a consumer's expenditure it might be thought that Greggs is recession-proof. However, increases in unemployment are likely to affect their sales as many of their customers are workers buying their lunch. It may be that some areas of the country are more badly affected by a downturn in the economy than others and so some of Greggs shops might experience greater difficulties than some others.

Other macro-economic factors include exchange rates, which would have an impact on the cost of raw materials used by the business and inflation, which could cause some problems for the business, particularly menu costs.

**Q.5 Advise Greggs plc on the desirability of expanding internationally. [13]**

<b>Level 1</b>	1-4	The candidate makes some attempt to analyse/evaluate the desirability of Greggs expanding internationally. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
<b>Level 2</b>	5-8	The candidate makes a reasonable attempt to analyse/evaluate the desirability of Greggs expanding internationally. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
<b>Level 3</b>	9-13	The candidate makes a well-balanced analysis and evaluation of the desirability of Greggs expanding internationally. 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:

- A discussion of the potential advantages of expanding internationally; a larger market which gives opportunities for increased sales, increased profits, economies of scale and a reduction of risk.
- Overseas expansion may introduce new ideas and new products into the company. The international experience of new employees may benefit the business.
- The decision may be affected by economic factors.

Problems which might need to be overcome, including:

- Differences in consumer taste - will Greggs plc current product range appeal to consumers in other countries? Is it more a case of diversification rather than market development, i.e. new products in new markets? Are there markets where they could sell some or all of their existing products, e.g. to British citizens overseas?
- Problems of setting up in countries with different laws, customs and languages. Greggs plc seems to be a particularly British company which may have considerable problems adapting to conditions overseas.
- The problems of recruiting, training and retaining staff may be more difficult in international markets, especially in non-English speaking areas.
- Is the expansion likely to put a strain on the business's finances?
- Will it mean that too much management time is spent on the problems of expanding internationally, might they lose focus on its current market.
- May face strong competition
- Candidates would be expected to draw a conclusion, which might well be that overseas expansion may be desirable in the long-term but that there are many pitfalls to overcome and that a cautious approach based on intensive research is advisable. As it is, there is still 'significant potential for further expansion' in the UK which perhaps should be considered before taking on the risk of expanding overseas.



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