



GCE MARKING SCHEME

BUSINESS STUDIES AS/Advanced

JANUARY 2012

INTRODUCTION

The marking schemes which follow were those used by WJEC for the January 2012 examination in GCE BUSINESS STUDIES. They were finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conferences were held shortly after the papers were taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conferences was to ensure that the marking schemes were interpreted and applied in the same way by all examiners.

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

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

Unit	Page
BS1	1
BS2	6
BS3	13

BS1

Q.1 (a) With the aid of examples, distinguish between goods and services. [4]

Goods - items produced by the conversion of raw materials into finished products by the secondary sector. They are tangible/physical products e.g. a car, an apple. Not necessary but candidates may refer to consumer and capital goods.

Services - intangible, task performed in return for payment e.g. personal/direct services e.g. hairdresser/haircut and commercial services e.g. banking and insurance services. Reference to tertiary sector to help illustrate the answer.

Definition (1); example (1) x 2.

(b) Outline two other aims that private businesses might have, apart from maximising their profit. [4]

Survival, growth, maximising sales revenue, gaining market share, diversifying into new products/new markets, social aims, ethical aims, reputation, improved quality, environmental, increased share value, increased efficiency, competitiveness.

1 mark for identification plus 1 for development

Q.2 (a) Identify one advantage and one disadvantage to Mike and Mia of setting up a private limited company. [2]

Candidates may refer to:

Advantage (1)

- Benefit of limited liability (do not have to explain).
- Can attract extra shareholders to invest because of limited liability.
- Control cannot be lost to outsiders.
- Continuity.
- Can be tax advantages if owners are paying the higher rate of income tax.
- Increased capital.

Disadvantage (1)

- Legal procedure in setting up takes time and costs money.
- Financial information filed with the Registrar can be looked at by public/competitors.

(b) Explain the benefits to Mike and Mia of having a business plan. [6]

Level 1	1-2	Candidate identifies benefits to Mike and Mia of having a business plan. Features of a business plan
Level 2	3-4	Candidate explains benefits to Mike and Mia of having a business plan.
Level 3	5-6	Candidate fully explains benefits to Mike and Mia of having a business plan.

Candidates may refer to:

- Sets out their objectives and strategy - plan of how business will develop over a period of time.
- Outlines the way in which they will attempt to achieve their business objectives.
- Without one, obtaining finance from banks, etc. is less likely.
- Helps them think ideas through - giving a clear idea of direction and operation.
May help to identify difficulties that may occur and allow the business to deal with them before they become a problem.
- Useful as a monitoring tool - e.g. compare actual performance with forecasts in the business plan.
- Used by a business customer they are supplying.

Q.3. (a) Calculate Nokia's percentage market share in 2010. [2]

24/55 (1)

43.636% or 43.64% or 43.6% (1) Accept 44% but not 43%

If candidate gives above answer but without showing working award 2 marks.

(b) Why is it important for a business, such as Nokia, to achieve a high market share? [4]

Candidates may refer to

- Helps business to meet business objectives e.g. survival, growth, profit maximisation, increased market share.
- Increases businesses overall profitability. Link between market share and profitability.
- Able to benefit from economies of scale.
- Can become the brand leader.
- Edge over competitors
- Attract new shareholders
- Investment into research
- Reference to oligopoly - barriers to entry

1 plus 1 for development x 2.

Q.4 (a) Explain why Zara prefers to operate its own stores rather than franchising them. [4]

Candidates may refer to:

- Retains all profit.
- Keeps control of the business.
- Improved communication / quicker response
- Eliminates the danger of a poor franchisee having negative impact on reputation.
- Avoids some costs, for example, those associated with training and monitoring of franchisees.

No marks for definition of franchise – need to apply to Zara
1 + 1 for development x 2.

(b) Explain the benefits to Zara of being vertically integrated. [6]

- | | | |
|---------|-----|--|
| Level 1 | 1-2 | Candidate can identify one or two benefits to Zara of being vertically integrated. Candidate can understand vertical integration |
| Level 2 | 3-4 | Candidate explains benefits to Zara of being vertically integrated. |
| Level 3 | 5-6 | Candidate fully explains benefits to Zara of being vertically integrated. |

Level 2 maximum if explained with no reference to Zara

Candidates may refer to:

- Security of supplies.
- Control of suppliers' prices.
- Improves supply chain co-ordination.
- Security of distribution outlets.
- Control over quality.
- Keeps all profit - no middlemen.
- Candidates may make distinction between backward and forward vertical integration.
- Speed
- Economies of scale–needs to be developed and refer to Zara for level 2/3

(c) **To what extent do you agree that Zara is more market orientated than product orientated?** [8]

Level 1	1-2	Candidate makes distinction between market orientated and product orientated/identifies one or two features of either market orientated or product orientated.
Level 2	3-5	Candidate describes some feature of market orientated and product orientated and may attempt some evaluation.
Level 3	6-8	Candidate engages with the debate and evaluates the statement.

Distinction made between market orientated and product orientated.
No reference to Zara level 1
One sided answer max level 2
Credit asset led business

Market orientation - a business which continually identifies, reviews and analyses consumers' needs. It is led by the market.

Features of market orientated approach

- Consumers are central to a business's decision making.- strong understanding of their needs.
- Can respond quickly to changes in the market.
- In a strong position to meet the challenges of new competitors entering the market.
- More able to anticipate market changes.
- More confident that the launch of new product will be a success.

Product orientated - a business focuses on the production process and the product itself.

Features of product orientated approach

- Emphasis on developing a technically sound product, producing it and selling it.
- Contact with the consumer largely at the final stage.
- An approach that is more likely to succeed when there is little or no competition.
- Fashion and tastes are not accounted for in product mix.

Q.5 Consider the view that unforeseen events, such as those mentioned in the passage are likely to harm some businesses but benefit others. [10]

Level I	1-3	Candidate identifies an unforeseen event where there have been winners and losers - may be one from the passage. The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas.
Level II	4-6	Candidate explains how unforeseen events may result in winners and losers 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 III	7-10	Candidate fully evaluates the view that unforeseen events are likely to harm some businesses and benefit others. 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.

A one sided argument – max level 1

Candidates may refer to:

Much depends on the nature and duration of the unforeseen events.

Candidates need to draw on examples of how unforeseen event might have a positive and negative impact on business - can draw on examples provided in the passage to illustrate points made.

For example volcanic ash from Iceland and strikes by cabin crew at BA will have a negative impact on air travel particularly BA whose reputation will be damaged. However ferry operators/Eurostar will benefit for European travel. Rail and bus operators will gain domestic passengers. May affect foreign travel firms adversely but UK tourist destinations may benefit. Those businesses which are not involved in trade would not be directly affected but may be affected indirectly.

Candidates can draw on own examples and/or more recent examples. in their argument e.g. the riots in England's cities in the summer of 2011 would mean that some businesses would lose trade, particularly in the short run, but local construction firms may benefit in re-building shops, offices, domestic property that were burnt down.

BS2

Q.1 (a) Explain two reasons why Research and Development (R&D) is so important to McCain Foods. [4]

Level 1	1-2	The candidate identifies one or two reasons why R&D is so important to McCain Foods.
Level 2	3-4	The candidate clearly explains one or two reasons why R&D is so important to McCain Foods.

Possible responses may include:

- Important because it creates **new/innovative products** which may appeal to consumers – curly fries and crispy thins being examples. May have positive impact on image.
- Important because it helps give McCains a **competitive edge** by staying ahead of its rivals.
- Important because it **helps to adapt its product to new technology**, such as microwaveable food.
- Important because it develops **more healthy food products** in order to satisfy consumer demand for healthy alternatives.
- Important because it **creates food that does not take long to prepare**, therefore fitting in with modern lifestyles.
- Important because it may create **more efficient manufacturing processes** which lower costs and, therefore, improve profit margins.

(b) Outline the key elements that a business like McCain Foods might include in its approach to Total Quality management (TQM) [8]

Level 1	1-3	The candidate identifies key elements that a business like McCain Foods might include in its approach to Total Quality Management (TQM).
Level 2	4-6	The candidate explains some two of the key elements that a business like McCain Foods might include in its approach to Total Quality Management (TQM).
Level 3	7-8	The candidate fully explains the key elements that a business like McCain Foods might include in its approach to Total Quality Management (TQM).

Possible responses may include:

- TQM is an attempt to establish a **culture of quality** affecting the attitudes and actions of every employee.
- **Quality chains** – trying to get every work group or department to think of those they work for as customers, even if they are fellow employees.
- **A company-wide quality policy** – this must start at the top with the Chief Executive and spread throughout the organisation to every employee.
- **Quality Circles** – the importance of teamwork as illustrated by small groups of staff who meet to address specific problems, with a view to solving them.

- **Quality audits** – may help trace the source of problems leading to suggestions for improvements.
- **Monitoring processes** – using techniques such as SPC (Statistical process Control) to monitor performance and reduce variability in areas such as variations in products, delivery times, materials/ingredients, staff performance, etc.
- **Teamwork** – helps to build trust and morale, improves communications and co-operation.
- **Consumer view** – staying close to the customer and being responsive to changes in consumers' needs and expectations. Helps to identify the strengths and weaknesses of a firm's operations.
- **Zero defects** – ensuring that every product that is manufactured is free from defects which enhances the reputation of the business.
- **Training** – improve quality of employees performance.
- **Kaizen/continuous improvement**

(c) **Discuss the view that, in a business such as McCain Foods, production is the most important functional department.** [8]

Level 1	1-3	The candidate briefly outlines, in a business such as McCain Foods, production is the most important functional department.
Level 2	4-5	The candidate attempts to explain why, in a business such as McCain Foods, production is an important functional department. May attempt some evaluation
Level 3	6-8	The candidate fully evaluates whether, in a business such as McCain Foods, production is the most important functional department.

Possible responses may include:

- The production function is important because manufacturing food required **consistent quality and cleanliness**. Health regulations have to be strictly complied with as any bad publicity in relation to the quality of the product would be disastrous for the business.
- Producing the correct amount required by customers at **the right time** is vital as this is a very competitive market.
- Keeping production **costs at a minimum** is very important in relation to the profitability of the business.

However, the other functional departments have a crucial role to play in the operation of the business if it is to be successful.

For example:

- **Marketing** – promotion above and below the line, market research, raising awareness, etc.
- **Human Resources** – people are a key asset, training, recruitment and selection, etc.
- **Distribution** – ensuring the product gets to the right place at the right time and in the right condition.
- **Finance and Accounting** – ensuring that money is managed efficiently and that liquidity is maintained.
- **R&D** – ensuring that the product portfolio is developed to meet customer needs.

In a business such as McCain's, production is a key function; but all functional areas need to operate effectively. As to which is the most important, it is very difficult to say; this will depend upon the circumstances at the time.

(d) **Evaluate the usefulness of the Boston Matrix to McCain Foods when using it to manage its large product portfolio.** [10]

Level 1	1-3	The candidate describes/illustrates the Boston Matrix.
Level 2	4-7	The candidate explains the usefulness of the Boston Matrix in managing an extensive product portfolio and may attempt some evaluation.
Level 3	8-10	The candidate fully evaluates the usefulness of the Boston Matrix to McCain Foods when managing an extensive product portfolio.

Possible responses may include:

- The Boston Matrix shows the market share of each of McCain's products and the rate of growth of the markets in which they operate.
- By highlighting the position of each product in terms of market share and market growth, McCain Foods can analyse its existing situation and decide what to do next.
- **Cash Cows** – high sales generate cash (as with McCain Oven Chips) which may be used to help support new products being launched in new or existing market segments.
- **Problem Child** – could well provide a lot of revenue in the future – probably the most difficult to manage. The market is growing and, therefore, achieving a higher market share would be the objective. Relatively high levels of investment are needed to keep the products going with re-launches. If this has been tried before, may abandon the product.
- **Star** – doing well in a growing market. May well need protection from competitors and money from the Cash Cows can help to fund heavy promotion.
- **Dogs** – hold little appeal unless they can be revived. Will probably be withdrawn from the market or may be given one last chance.

However:

- The Boston Matrix is just a generalisation. Cash Cows can lose money and Dogs can be profitable in the right circumstances.
- Customer opinions and loyalty need to be taken into account. Market share can be a reflection of how long McCain has been in a market or the success of its recent marketing mix. If there is a high degree of loyalty among McCain's customers, this might enable it to overcome apparent weaknesses in terms of its products' position in the Boston Matrix.
- A mass market, such as the one McCain operates in, with low growth, might offer far more opportunities to increase sales revenue and profit than a small, niche market with high growth.
- The Matrix can cause firms to focus too much upon pursuing increasing market share as opposed to, for example, attempting to consolidate market share or improve other aspects of the performance of the product.
- The model does not entirely take into account the way in which products within a business support each other.

Q.2 (a) Using the cash flow forecast, calculate:

- (i) net cash flow for January [1]**
(ii) closing balance for March [1]

- (i) Net cash-flow for January - (£1680) (x1)
(ii) Closing balance for March - (£6240) (x1)

(b) Explain the advantages to a business, such as The ToneZone, of drawing up a cash flow forecast. [6]

Level 1	1-2	The candidate makes simple statements relating to why businesses prepare cash flow forecasts.
Level 2	3-4	The candidate attempts to explain the advantages of preparing cash flow forecasts.
Level 3	5-6	The candidate fully explains at least two advantages of preparing forecasts and applies them to The ToneZone.

Possible responses may include:

- Identifies the timing of cash shortages and surpluses.
- Enhances the planning process – guides the firm towards taking appropriate action.
- Helps identify where problems might occur and helps to avoid the firm being forced out of business.
- Supports attempts to raise finance.

(c) Suggest ways in which Lizzie and Tony might improve their worrying cash flow situation and consider any consequences your suggestions might have. [8]

Level 1	1-2	The candidate briefly outlines one or two ways in which they might improve their cash flow situation.
Level 2	3-5	The candidate offers appropriate suggestions as to how they might improve their cash flow situation and may attempt to consider any consequences the suggestions might have.
Level 3	6-8	The candidate offers a range of appropriate suggestions as to how they might improve their cash-flow situation and considers any consequences your suggestions might have.

Possible responses may include:

- Re-negotiate the overdraft limit – the business will run out of cash at the end of March. However, text says that this is very unlikely to be granted. Forecast indicates that cash flow crisis will be resolved in April.
- Reduce their drawings for January, February and March. Will they be able to meet their personal living expenses?
- Cut the wages of the staff. They may leave or become de-motivated.
- Not use contract cleaners. Could they and the staff do this instead? Do they have the time? Would the service they offer to their customers suffer? Can they get out of the contract?
- Cut the advertising budget. Could have a negative impact on membership.
- Pay the insurance due in March by instalments – may be more expensive in the long-run, but will go a long way to resolving the crisis.
- Increase the entrance fees. May cause a significant decrease in revenue.
- Offer a discount for early payment of fees prior to April. Will reduce overall revenue for the coming financial year but may help the firm to survive.
- Outside investor to inject cash/investment

(d) Explain two benefits to The ToneZone of having a well trained workforce. [4]

Level 1	1-2	The candidate identifies one or two benefits to The ToneZone of having a well trained workforce.
Level 2	3-4	The candidate explains two benefits to The ToneZone of having a well trained workforce.

Possible responses may include:

- Increases efficiency and enables the service they provide to be improved.
- Ensures that employees have the necessary skills and attributes to carry out their jobs.
- Increases the motivation and job satisfaction of staff.
- Can identify employees' potential to make an even better contribution to the business.
- May reduce costs in the long run – accidents, injuries, recruitment costs, etc.
- Can make staff more flexible and better able to cope with change.
- Can improve the image of the business.
- Workers better equipped to work independently.

N.B. Two of the above must be **applied** to The ToneZone in order to reach the top of Level 2.

(e) To what extent do you agree that The ToneZone's problems are due to Lizzie and Tony's laissez-faire leadership style? [8]

Level 1	1-2	The candidate briefly outlines their understanding of a laissez-faire leadership style.
Level 2	3-5	The candidate attempts to explain why The ToneZone's problems are due to Lizzie and Tony's laissez-faire leadership style. May attempt some evaluation.
Level 3	6-8	The candidate fully evaluates the view that The ToneZone problems are due to Lizzie and Tony's laissez-faire leadership style.

Possible responses may include:

- A laissez-faire type of leadership occurs when the leader has minimal input. leaving much of the running of the business to the staff, allowing them to carry out activities freely within broad limits.
- Tasks have been delegated with few guidelines and directions and the staff feel that they have been 'thrown in at the deep end'.
- Rudeness to customers may be as a result of lack of customer service training or stress as a result of being unsure how to operate the equipment competently.
- Staff are de-motivated as they dislike the unstructured manner in which they have to carry out their jobs.
- The staff are newly qualified and lack confidence. Whilst some staff would appreciate the freedom and scope to show their capabilities, it would appear that the four they have appointed do not.
- Other leadership styles may have been appropriate

However, there may also be other reasons for their problems:

- The competition from Esporta and the other fitness centres in town seems to have been under-estimated.
- Customers may want Lizzie and Tony as their personal trainers and not part-time employees. The nature of their business has essentially changed and many of their customers do not like it.
- They have not trained the staff effectively or appointed the wrong staff in the first place.
- Questionable financial management
- The losing of the local authority contracts would be a severe blow to their revenue in the coming financial year.

Q.3 Consider the view that the growth of internet shopping has benefited consumers more than businesses. [12]

Level 1	1-4	<p>The candidate briefly outlines possible benefits to consumers and/or businesses of the growth in Internet shopping.</p> <p>The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas.</p>
Level 2	5-8	<p>The candidate can organise relevant information and express moderately complex ideas clearly in a coherent manner.</p> <p>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.</p>
Level 3	9-12	<p>The candidate fully evaluates the view that growth of Internet shopping has benefitted consumers more than businesses.</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:

Benefits to consumers:

- Convenience – the text indicates the trend in ROBO which many female shoppers seem to be following.
- Home delivery – even groceries can now be delivered, saving busy people time to do other things.
- Orders can be placed anytime day or night – 24 hour shopping for those who want it.
- Customers do not have to travel or pay parking fees.
- Customers can view a huge range of products which might otherwise take a considerable time to do so on a conventional shopping trip.
- It is possible to buy products from other countries and pay using services such as PayPal to pay in relative safety.
- Compare prices and read reviews in order to inform their choices more effectively.

Benefits to businesses:

- Selling via the Internet can eliminate or reduce the need for expensive high-street premises, although it would appear that consumers want both.
- Costs can be lowered by moving to places where rent and wages are considerably lower.
- It can reduce the need to employ staff. Organisations such as banks have closed many of their branches as people have moved to Internet banking.
- It adds flexibility to business operations and businesses can reach their customers 24 hours a day.
- Data on customers can be cheaply stored and easily accessed, enabling businesses to target their customers more effectively.
- They can reach a world-wide audience which may not have been possible for small to medium sized businesses in the past.

It would seem fair to say that there have been lots of benefits to both sides.

Costs to businesses are considerable in many cases. Maintaining quality websites is costly and businesses have little choice but to offer products on-line if they wish to remain competitive. Most businesses today are customer-orientated and they are, in effect, responding to the wishes of their customers by facilitating on-line shopping. Those who have to maintain a high-street presence will find it particularly costly, especially if their outlets are increasingly used as showrooms.

Costs to consumers, lack of access, delay in delivery, fraud/security/unable to try

BS3

Q.1 Identify and explain the ways in which Kingfisher plc has responded to changes in the demands of its various customers. [10]

Level 1	1-3	The candidate identifies ways in which Kingfisher plc has responded.
Level 2	4-6	The candidate explains the ways in which Kingfisher plc has responded.
Level 3	7-10	The candidate fully explains the ways in which Kingfisher plc has responded.

Answers might include the following:

Kingfisher plc seems to be targeting two different groups of consumers: households and trade customers.

For householders it is providing more than just DIY products and is aiming at the home improvement market. It supplies a wide range of products for the home, including electrical equipment, home furnishings and things for the garden. It also aims to produce innovative products such as the click-together tiles. It is increasingly targeting the market for eco-friendly products. Changed its slogan.

It aims to sell these goods at a competitive price and is able to do this because it has purchasing economies of scale, which it can use to supply goods to its stores throughout the world. Aims to embrace local customs.

It promotes its products to women as well as men and even organises DIY classes for customers.

It sells its goods both in its stores, in catalogues and on the internet. Has developed apps. Self service checkouts.

For trade customers it is opening special counters and providing all of the products that they require at times which are convenient to them.

It is expanding its overseas business and promoting the idea of DIY in those markets.

Any other valid observation should be rewarded

Q.2 Explain ways in which Kingfisher plc might manage the quantifiable and unquantifiable risks that face the company. [10]

Level 1	1-3	The candidate demonstrates some understanding of how Kingfisher plc might manage the risks facing the company.
Level 2	4-6	The candidate demonstrates reasonable understanding of how Kingfisher plc might manage the risks facing the company.
Level 3	7-10	The candidate demonstrates good understanding of how Kingfisher plc might manage the risks facing the company.

Answers might refer to the following:

An explanation of the terms quantifiable and unquantifiable risks and the identification of these from the information given on page 4 or any other potential risks facing the company.

For example, risks 1,2,3,4 and 7 might be easier to quantify than risks 5 and 6.

If China fails to deliver the desired return it may be necessary to either change strategy or even pull out of the market altogether.

If the economic recovery continues to undermine consumer confidence and restricts opportunities for growth the business is unlikely to achieve its targets for sales and profits, it might look to expand sales elsewhere or to cut costs.

If it fails to take advantage of its combined buying power synergies and economies of scale it will be unable to significantly reduce costs and increase profits. It will need to concentrate on these areas.

The failure to meet ongoing changes in consumer trends, particularly given the impact of the internet will mean that other businesses are likely to take away market share. Kingfisher will need to invest more in internet sales

The impact of a major health and safety failure or a major ethical or environmental failure could seriously damage Kingfisher's reputation and it may be very costly. It could result in the loss of sales and possible prosecution and fines. It will need to be vigilant and train its staff to try to make sure that this does not happen

Failure to invest in its people will mean that it will not have the calibre of staff necessary for the business to succeed. Therefore the investment needs to be made and monitored.

Failure to comply with new legislative or regulatory requirements may result in prosecution and fines. It must make sure that these issues are dealt with.

By being prepared for these risks it can hopefully avoid many of them and lessen the impact of them should they arise.

Candidates should be rewarded for reference to the experiences of other businesses, e.g., the cost to BP of the oil spill in the Gulf of Mexico

Any other valid observation should be rewarded

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

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

	2009/10	2008/9
Gross Profit Margin	$3797/10503 \times 100 = 36.15\%$	$3501/10026 \times 100 = 34.92\%$
Net Profit Margin	$623/10503 \times 100 = 5.93\%$	$173/10026 \times 100 = 1.73\%$
RONA	$623/4955 \times 100 = 12.57\%$	$173/4798 \times 100 = 3.61\%$
ROCE (fixed + current assets)	$623/9846 \times 100 = 6.33\%$	$173/10231 \times 100 = 1.69\%$
ROCE (shareholders' funds + long term liabilities)	$623/6416 \times 100 = 9.71\%$	$173/7167 \times 100 = 2.41\%$
Current ratio	$3381/3430 = 0.99:1$	$3597/3064 = 1.17:1$
Acid test ratio	$1836/3430 = 0.54:1$	$1805/3064 = 0.59:1$
Gearing (long term liabilities/shareholders funds)	$1461/4955 \times 100 = 29.49\%$	$2369/4798 \times 100 = 49.37\%$
Gearing (long-term liabilities/shareholders funds + long-term liabilities)	$1461/6416 \times 100 = 22.77\%$	$2369/7167 \times 100 = 33.05\%$
Gearing (loans/shareholders funds + long-term liabilities)	$883/6416 \times 100 = 13.8\%$	$1907/7167 \times 100 = 26.6\%$
Gearing (loans/shareholders capital)	$883/4955 \times 100 = 17.82\%$	$1907/4798 \times 100 = 39.75\%$
Gearing (loans/shareholders capital + loans)	$883/5838 \times 100 = 15.13\%$	$1907/6705 \times 100 = 28.44\%$

Sales turnover is up 4.5%. The gross profit margin has increased from approximately 35% to 36%, which is a step in the right direction. This appears to have happened because sales have increased by around £500m but cost of sales have only increased by around £200m.

The net profit margin has improved dramatically from under 2% to nearly 6% due to a reduction in expenses. Net profit margin has increased by 260%. This is a welcome development. However, a net profit margin of under 6% may still be less than the company might hope to achieve in the future.

RONA and ROCE, by whichever method they are calculated, show a marked improvement. This is particularly noticeable when using shareholders' funds + long-term liabilities because the figure for long-term liabilities has fallen significantly whilst net profit has increased.

The current ratio appears to have worsened slightly falling from 1.17:1 to just below 1:1. This was mainly caused by a reduction in the value of stock held and an increase in short-term borrowing. Whilst this is below the ideal level it is probably not a problem in this type of business.

The acid test ratio has reduced slightly and is well below the ideal figure of 1:1. However, this is a cash-rich business and Kingfisher are unlikely to be under great pressure from their suppliers, so this is unlikely to be a problem for them.

The gearing ratio has fallen to around 25% which means that the company does not have too much external debt and indeed could afford to borrow more if it wanted to expand in the future. The fall in the ratio is due to the significant reduction in long-term loans of over £1000m. However, whilst long-term loans have fallen short-term loans have increased which, although more flexible, may also prove to be more expensive.

Overall, the financial situation of the business has improved dramatically. However, the better answers may well recognise the fact that 2008/9 was not a typical year. Most businesses were affected by the recession, which resulted from the banking crisis. For this reason anything less than a big improvement would have been disappointing. It would therefore have been useful to have had access to some accounts from previous years when the trading situation was normal.

Q.4 With reference to Porter's Five Forces Framework and the information given in the case study, comment on the present situation of Kingfisher plc. [14]

Level 1	1-4	<p>The candidate demonstrates some understanding of Porter's Five Forces Framework and its application to Kingfisher plc.</p> <p>The candidate organises information and presents simple ideas in a clear manner using some appropriate terminology. Errors in grammar, punctuation and spelling may be noticeable and intrusive suggesting weaknesses in these areas</p>
Level 2	5-9	<p>The candidate demonstrates some sensible analysis/evaluation of the position of Kingfisher plc with reference to Porter's Five Forces Framework.</p> <p>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.</p>
Level 3	10-14	<p>The candidate is able to analyse and evaluate, in a meaningful way, the present situation of Kingfisher plc with reference to Porter's Five Forces Framework.</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>

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 company seems to have some powerful suppliers such as ICI and Black and Decker, but given its huge buying power, being number one in several countries, it is able to dictate to them, as is evidenced by the fact that it increased payment times from 45 to 90 days. Kingfisher takes advantage of purchasing economies of scale

Buyers: the buyers of its products fall into two categories, households and trade. It has made a great effort to meet the requirements of both groups. Individually the buyers are not powerful, but collectively their needs must be met.

Industry competitors: Kingfisher is number one in many countries and so it is the market leader but nevertheless it still has many competitors, since in the UK for instance it only has 14% of the market.

Potential entrants/Barriers to entry: Kingfisher seems to be well placed as regards potential entrants as it would be quite expensive for anyone to set up in opposition to them. However the increasing importance of the internet means that they could lose sales to operators without huge stores, whose overheads are lower.

Substitutes: there will be other products that Kingfisher does not sell in its stores but by innovating and having unique products such as the combined toilet and washbasin it faces less threat from substitutes.

Overall B&Q has quite a strong position as regards Porter's five forces. It might be advised to try to take-over or merge with some of its rivals in order to strengthen its position. Its biggest threats come from the economic situation and changes in consumer trends rather than from competitors.

Q.5 Evaluate Kingfisher plc's plan for global expansion. [12]

Level 1	1-4	The candidate makes some attempt to analyse/evaluate Kingfisher's plan for global expansion. 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	The candidate makes a reasonable attempt to analyse/evaluate Kingfisher's plan for global expansion. 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	9-12	The candidate makes a well-balanced analysis and evaluation of Kingfisher's plan for global expansion. 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.

Responses might include the following:

Arguments in favour:

There is not much potential for growth in the UK at present and therefore overseas expansion offers better prospects for the future.

Whereas DIY is a saturated market in the UK, other countries offer much better potential for market growth (reference could be made to the Boston Matrix)

Some countries, such as Russia and Turkey are expected to achieve higher GDP growth and therefore might be expected to be good markets into which to expand.

There are prospects for increased sales and profits. Reduction of risks and exploitation of economies of scale.

Arguments Against:

Despite the huge size of the Chinese market and the potential for growth the company has already made losses there which shows that it is not always easy to break into new markets

There may well be cultural difference so that in some countries there is no interest in DIY.

There may be legal and bureaucratic problems in setting up in other countries.

There may be language barriers and problems training staff.

They may experience diseconomies of scale.

It may be expensive to set up new stores overseas putting pressure on the balance sheet.

Fluctuations in exchange rates may affect the business. Price transparency not always clear.

Conclusion:

Overall it seems a good idea as overseas expansion offers further opportunities to reap economies of scale and increase profits. However, there are a number of pitfalls and it would be wise to proceed with caution.

Credit should be given for comparison with other companies, e.g., the difficulties experienced by Tesco and its Fresh & Easy stores in the United States.



WJEC
245 Western Avenue
Cardiff CF5 2YX
Tel No 029 2026 5000
Fax 029 2057 5994
E-mail: exams@wjec.co.uk
website: www.wjec.co.uk