

GCE 2004

June Series



Mark Scheme

Business Studies

Unit BU5W

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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Dr Michael Cresswell Director General

MARK SCHEME

GENERAL MARKING GUIDANCE

You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates at the end of a full A Level course.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a Levels of Response approach is that there maybe more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

1. Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, e.g. an advantage of factoring.
2. Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
3. Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
4. Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

LEVEL 4	Complex ideas are expressed clearly and fluently. Sentences and paragraphs follow on from one another smoothly and logically. Arguments are consistently relevant and well structured. There are few, if any, errors of grammar, punctuation and spelling.	4 marks
LEVEL 3	Moderately complex ideas are expressed clearly and reasonably fluently, through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling.	3 marks
LEVEL 2	Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas.	2 marks
LEVEL 1	Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas.	1 mark
LEVEL 0	Ideas are expressed poorly and sentences and paragraphs are not connected. There are errors of grammar, punctuation and spelling, showing a weakness in these areas.	0 marks

Total 4 marks

1**Total for this question: 40marks**

You are a management consultant. Write a report to the directors of Hatten plc analysing the strengths and weaknesses of the firm's present situation. On the basis of this analysis, recommend whether continued fast growth should be the firm's priority.
(2 marks are included for appropriate report format.) *(40 marks)*

Knowledge and understanding (Assessment Objective 1)**Max 8 marks**

LEVEL 3	Good explanation/understanding of a range of relevant material, presented appropriately	8 - 6 marks
LEVEL 2	Some explanation/understanding of relevant material, which is presented appropriately	5 - 3 marks
LEVEL 1	Identifies relevant material which is presented appropriately (up to 2 marks for report format)	2 - 1 marks
LEVEL 0	Includes no relevant material	0 marks

Application of Knowledge (Assessment Objective 2)**Max 8 marks**

LEVEL 3	Relevant data applied in detail to context showing critical perspective	8 - 6 marks
LEVEL 2	Relevant data applied in detail to context	5 - 3 marks
LEVEL 1	Relevant data applied to context	2 - 1 marks
LEVEL 0	No application of data to the question	0 marks

Analysis of Evidence (Assessment Objective 3)**Max 8 marks**

LEVEL 3	Substantial analysis of the data demonstrating insight and depth and identifying key issues	8 - 6 marks
LEVEL 2	Analysis of the data demonstrating insight and depth	5 - 3 marks
LEVEL 1	Limited analysis of the data presented, showing some understanding but neither insight nor depth	2 - 1 marks
LEVEL 0	No analysis provided	0 marks

Synthesis (Assessment Objective 4)**Max 5 marks**

LEVEL 3	The report's structure is well thought through, making it easy to follow the logic, the communication and the recommendations which draw together the most appropriate evidence and arguments	5 marks
LEVEL 2	The report's structure is well thought through, making it easy to follow the logic, the communication and the recommendations	4 - 3 marks
LEVEL 1	The report has a structure and is built into a connected whole	2 - 1 marks
LEVEL 0	The report is unstructured and lacks coherence	0 marks

Evaluation (Assessment Objective 5)**Max 11 marks**

LEVEL 4	Appropriate conclusions justified by the evidence, showing an awareness of the most relevant underlying themes or issues and their potential implications for the business concerned	11 - 9 marks
LEVEL 3	Appropriate conclusions which are well supported showing an awareness of the most relevant underlying themes or issues	8 - 6 marks
LEVEL 2	Appropriate conclusions which are partially supported by the evidence present	5 - 3 marks
LEVEL 1	An attempt at drawing conclusions, but based on hearsay or assertion rather than argument based on the evidence	2 - 1 marks
LEVEL 0	No attempt to draw conclusions	0 marks

Strengths of Hatten's position:

- The firm seems to have established greater power over suppliers as seen by the better payment terms, lower lead time and lower unit costs; gross profit margins have been significantly boosted, possibly due to cheaper supplies.
- Sales have increased much faster than the number of stores. Gaining more sales in relation to assets, hence asset turnover is higher. This may be due to the increase in the number of product lines.
- The firm has improved its Return on Capital, suggesting it has been a successful strategy in financial terms (although ROC is still not particularly high).
- The share price has increased a little which suggests “the market” approved of aspects of the firm's strategy at present (although may question how much longer this will continue).
- The firm has a relatively high number of centres in its chain; may lead to economies of scale.

Weaknesses of Hatten's position:

- The business has grown rapidly and this has led to a major increase in the number of staff; the increase in levels of hierarchy may have caused problems with communication and motivation (diseconomies of scale) and contributed to the high labour turnover of new staff. Culture clash may be a contributing factor given that growth is through takeover.
- Training spending on staff has not kept pace with the rapid growth in numbers and turnover, which may also have contributed to the personnel problems – people lacking the skills to cope with rapid growth; lack of induction training for new recruits; may also create future problems if there is a lack of investment at this stage.
- Working capital has fallen sharply, so liquidity is a possible concern.
- Although significant gains with the gross profit margins, the net profit margin is falling; overheads are increasing - could be interest payments and/or significant increases in management overheads with the increased scale.
- Seasonal business – creating potential staffing problems and cashflow problems; instability is worse because the outdoor business is very vulnerable to changes in the weather.

Overall:

- Growth seems to have brought some financial gains with regard to the power over suppliers and unit costs. The increased share price suggests it has met with some approval with shareholders so far; the future strategy selected should reflect shareholder objectives.
- Further expansion may be desirable to compete against the DIY stores, eg by further increasing its buying power; directors may see it as important to boost the firm's size to try and match the DIY stores that are getting market share.
- Slightly cheaper finance in future might make borrowing cheaper if it did want to borrow to expand (although we do not know what the rate actually is).

However:

- With the additional borrowing in the last two years further loans may be difficult and expensive to acquire;
- The existing owners may not want to issue more shares so soon after flotation;
- The firm's working capital is falling.

All of this suggests the financial position may not be ready for expansion just yet.

- The management of people looks like it needs to be a matter of some importance and urgency; may want to think about the structure (did the number of levels of hierarchy need to double? Is layering a possibility?) and whether more investment in training is needed; very rapid growth may have needed more careful handling, eg were managers prepared?
- The firm needs to examine the management of its expenses, eg administration. Has managing more people increased management overheads here significantly?
- Even with further growth the business is still likely to be vulnerable to the weather, so it might be worth focusing more on the indoor areas where sales seem to slightly offset the seasonal problems of the outdoor areas.
- May depend on strategy selected, eg how fast? How much through takeover? How much through organic growth?
- May depend on how future growth is managed, eg whether appropriate control mechanisms exist.

2

Total for this question: 40 marks

NTB plc is a manufacturer of personal computers with a 10% share of the worldwide market. Its Chief Executive has recommended to the Board of Directors that the firm should diversify into the production of printers, as some of its competitors have done. Consider the factors the Board of Directors of NTB plc might take into account before making this decision. (40 marks)

Answers may include:

- How it would enter the market – will it buy an existing company or start up manufacturing itself? Latter may take longer but may be easier to control as opposed to coping with culture clashes and different ways of doing things.
- What will the initial costs be and what is the likely return on investment? Obviously the directors need to consider the expected growth and market conditions in the printer market. Will consider eg payback, ARR and Net Present Value.
- What is the likely reaction of the existing printer companies? Will this start a price war in this industry? This could also lead to an attack in the PC market as some of its competitors operate in both.
- Does the firm have transferable skills and assets, eg what will it bring to this market that will add value? Can it build a similar reputation for reliability? If not, the poor printers might damage the PC reputation.
- Risk – why move from a sector it knows well? On the other hand, what if it does not enter the market and others are doing both?
- Are there possible cost benefits, eg shared marketing costs? Some aspects of shared R&D?
- Opportunity cost – what else could be done with the funds and is there a need to broaden out the PC market?

Overall:

- The firm clearly has strong market presence, so this should make it easier to enter a new but related market; the products are complementary, so there is a logic in acquiring a printer business – it enables the firm to offer a wider range of products to customers. Should be able to get retailers to stock them.
- Depends on need/desire for short term rewards – this strategy may involve a sacrifice of short term profits, whilst the business gets established.
- May depend on the Board's trust in the management; what are the motives of the managers – are they simply eager for growth to increase their own power?
- Is the market for PCs growing or not? Is NTB's market share growing or not?

3

Total for this question: 40 marks

Several international food and drink producers have been criticised in the UK media for making large profits on their coffee products whilst paying low prices to the farmers who supply them. Discuss the possible consequences of such criticism for these firms. *(40 marks)*

Possible answers may include:

- May reduce sales of their coffee and so hit profits; this may then require rationalisation and possibly closure of parts of the coffee making businesses; consumers may boycott their products generally, so it affects more than just the coffee sales.
- May affect the share price if investors worry about the future impact on the business.
- May lead to the companies rethinking the prices they pay to the farmers; they may accept lower profit margins, or they may try to push up prices of the final products depending on, eg price elasticity of demand.
- May lead to a public relations campaign by these companies to highlight, eg that higher costs may lead to higher prices.

However:

- They also sell coffee elsewhere- so how important are UK coffee sales to the business in terms of contribution? Is there criticism elsewhere?
- They also sell other products, so the impact may not be significant.

Depends on:

- Extent of the criticism- which media? To what extent does it influence customers?
- Consumers' buying behaviour - does it lead to protests and boycotts? How much is the consumer willing to pay for social responsibility?
- Nature of the organisations, eg do they set out to be socially responsible? What do they regard as their priorities, eg investors v customers v coffee farmers?
- How competitors are behaving and availability of more ethical products.

4

Total for this question: 40 marks

Falst Ltd is a manufacturer of soaps, shampoos and conditioners. It sells these products directly to large hotel chains that put them in guests' rooms. Last week, Falst Ltd lost a big contract that it had held for many years and has since discovered it was undercut on price. Discuss the possible implications of this for the business. (40 marks)

Possible answers may include:

- May lead to under-utilisation of capacity: may impact on unit costs and profitability.
- May have to rationalise and cut costs; may need to involve employees in this process, eg introduce kaizen groups and quality circles to look for ways of cutting costs without affecting quality.
- May face financial problems, eg with cash flow; may need to take action to maintain cash flow
- May have to make redundancies if the problem is serious enough.
- May have to put more resources into marketing to generate more business with other customers.

Depends on:

- What is happening with its other contracts – this was a big contract that it lost, but are others being gained or not?
- When do the other contracts come up for renegotiation and is Falst Ltd likely to lose these? When does this contract come up again, eg when can it be won back?
- Is this a general problem of price competitiveness, eg is Falst less price competitive than all its rivals?
- Was it just because Falst did not know what the other firm had offered or could it not actually match it?
- Price elasticity of demand of other customers – how important is price generally to customers relative to, eg reliability, range of products?
- Its ability to win other contracts or increase sales to the customers it retains.
- The size of the contract relative to the business as a whole.
- Whether it was expected and action has already been taken to replace it.
- May simply mean it needs to judge the likely bids of competitors better in future.

5

Total for this question: 40 marks

Along with others in the industry, McDonald's, the worldwide chain of fast-food outlets, has experienced poor profits in recent years. In 2003, it announced its first ever loss. Analysts suggest the company needs to introduce a programme of change to make the firm's culture "more innovative, more participative and more market orientated". To what extent is introducing such a programme likely to improve the performance of McDonald's? *(40 marks)*

Possible answers may include:

- May mean more focus on customers, more understanding, more awareness of customer requirements, etc. Can provide a better quality service – may generate brand loyalty and make customers switch from competitors.
- May mean better decisions are made; may mean greater commitment to these decisions from staff; may make it easier to recruit and keep staff cutting recruitment costs.
- May make change generally easier if staff feel involved; if difficult decisions do have to be made then may be easier and more effective if staff participate in the process.
- In the short run financial performance may suffer, eg as training and incentives are required to bring about change.

But:

Many other factors influence a firm's performance apart from the culture, eg the product, the marketing, external factors.

Depends on:

- Extent to which the culture is the reason for the poor profits of the business as opposed to, eg external factors; can a culture change cure everything? What if it is the fact that people do not like fast food as much?
- Short v long run; may take a while to change culture – unlikely to be short term results; short term consequences may be limited; the effects may take time to work through.
- What is happening with competitors – is this just catch-up or will it provide a benefit/competitive advantage for the business?
- Is the culture change cemented in, eg is it sustained over a period of time? Will we see some changes then a fall back to old ways?

Essay Marking Grid

Use this marking grid, and the guidance underneath it, when assessing each essay.

	Content 8 marks	Application 8 marks	Analysis 8 marks	Evaluation 16 marks
Level 4				16 - 13 marks Mature judgement shown in arguments and conclusions
Level 3	8 - 6 marks Good explanation/ understanding of relevant factors	8 - 6 marks Full application to context	8 - 6 marks Full analysis of the question using theory appropriately and accurately	12 - 9 marks Judgement shown in arguments and/or conclusions
Level 2	5 - 3 marks Some explanation/ understanding of relevant factors	5 - 3 marks Application to context	5 - 3 marks Analysis of the question with some use of relevant theory	8 - 5 marks Limited judgement shown in text or conclusions
Level 1	2 - 1 marks Relevant factors identified	2 - 1 marks Limited application to context	2 - 1 marks Limited analysis of the question	4 – 1 marks An attempt at drawing conclusions but based on hearsay or assertion rather than argument based on the evidence
Level 0	0 marks No knowledge shown	0 marks No application	0 marks No analysis present	0 marks No judgement present

The following points give a detailed list of some of the qualities which could be rewarded:

Analysis (breaking down)

- Identification of cause, effect and interrelationships.
- The appropriate use of theory or business cases/practice to investigate the question set.
- Breaking the material down to show underlying causes or problems.
- Use of appropriate techniques to analyse data.

Evaluation (bringing together)

- Building the points/themes within the answer into a connected whole.
- Logical sequencing of argument.
- Clarity through summarising an argument.

Evaluation (judgement)

- Judgement shown in weighing up the relative importance of different points or sides of an argument, in order to reach a conclusion.
- Informed comment on the reliability of evidence.
- Distinguishing between fact and opinion.
- Judgement of the wider issues and implications.
- Conclusions drawn from the evidence presented.
- Well-judged use of English.
- Selectivity - ensuring material is all relevant to the question.