



General Certificate of Education

Business Studies 5131

BUS1 Marketing and Accounting and Finance

Mark Scheme

2006 examination - January series

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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

GENERAL MARKING GUIDANCE

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary Level candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through 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 may be 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, eg 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.

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|---------|---|----------------|
| 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 |

Total 2 marks

1

Total for this question: 25 marks

(a)	What is meant by the term ‘secondary market research’ (line 16)?	<i>(2 marks)</i>
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	Content 2 marks
Level 2	Candidate demonstrates good understanding of term
Level 1	Candidate demonstrates some understanding of term

Secondary market research is the process of collecting information from second-hand sources such as government statistics and market intelligence reports.

Market research = 1, Secondary = 2

(b)	(i) Calculate the number of mobile phones sold by Nokia in the second quarter of 2004. You should show your workings.	<i>(3 marks)</i>
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	Content 1 mark	Application 2 marks
Level 2		Candidate carries calculation through successfully
Level 1	Candidate demonstrates understanding of how to calculate Nokia’s sales volume	Candidate makes attempt at calculation

Nokia’s sales volume was 29.7% of 156 million in the second quarter of 2004.

Thus they equalled $156 \text{ million} \times 0.297 = \mathbf{46.33 \text{ million}}$ or **46.3 million**.

- (b) (ii) Explain **one** problem that Nokia might experience as a result of a falling market share. (4 marks)

	Content 2 marks	Application 2 marks
Level 2	Candidate shows good understanding of market share or explains problem or elements of both	Candidate applies knowledge effectively
Level 1	Candidate shows limited understanding of market share or identifies relevant problem	Candidate makes attempt to apply knowledge

Relevant problems might include the following:

- The company might not be able to determine prices so successfully
- Competitors might benefit further from increased sales, improved profitability and price competitiveness
- Retailers might offer rival companies' phone more prominent positions
- The adverse publicity associated with falling market share may make it more difficult to sell to companies such as Vodafone.

- (c) Examine **two** possible difficulties that Nokia might face when taking marketing decisions on the basis of the product life cycle theory. (7 marks)

	Content 2 marks	Application 2 marks	Analysis 3 marks
Level 2	Candidate shows good understanding of the product life cycle or identifies two relevant implications or elements of both	Candidate applies answer effectively to Nokia's circumstances	Good analysis of the difficulties of relying on the theory of the product life cycle in taking marketing decisions
Level 1	Candidate shows some understanding of product life cycle or identifies one relevant implication	Candidate attempts to apply answer to Nokia's circumstances	2–1 marks Limited analysis of the difficulties of relying on the theory of the product life cycle in taking marketing decisions

Relevant answers might include the following:

- The product life cycle is most useful in explaining past events, especially in volatile markets such as the mobile phone market
- The mobile phone market is fashion-based meaning slumps in sales may be due to consumer's whims
- If Nokia believes that some of its handsets are reaching the end of their life cycles it may cut back on promotion meaning that sales will probably fall
- Nokia has cut its prices which may send out the wrong signal to fashion conscious consumers promoting a fall in sales of some handsets.

(d) Nokia has cut its prices in an attempt to restore its market share. Discuss the case for and against its decision to cut prices. (9 marks)

	Content 2 marks	Application 2 marks	Analysis 3 marks	Evaluation 2 marks
Level 2	2 marks Candidate offers two or more relevant arguments or definition + one argument	2 marks Candidate applies knowledge effectively to Nokia's circumstances	3 marks Good analysis of covering both sides of argument	2 marks Sound judgement shown in answer or conclusions
Level 1	1 mark Candidate offers single relevant argument/definition of market share	1 mark Candidate attempts to apply knowledge to Nokia's circumstances	2–1 marks Limited analysis of argument	1 mark Some judgement shown in response

Relevant arguments might include the following:

Price cuts might work because:

- The company might enjoy increased sales revenue so long as demand is price elastic
- Nokia is the market leader and may be able to push prices lower generally disadvantaging smaller competitors
- Nokia's approach might prove successful in developing countries where incomes are lower
- Lower prices might help Nokia to get rid of its surplus stock of handsets.

On the other hand:

- Nokia's rivals may simply match the price cuts – firms such as Motorola are financially powerful, especially as market shares rise
- The problem appears to be with the handsets, not with the prices Nokia charges
- How price elastic is the demand for mobile phones? Consumers probably want the latest technology, not low prices
- Nokia itself predicts price cuts will reduce profits – can it afford this at a time when it plans to introduce new models?

2

Total for this question: 25 marks

(a) What is meant by the term 'profit centre' (line 21)? (2 marks)

	Content 2 marks
Level 2	2 marks Candidate demonstrates good understanding of term
Level 1	1 mark Candidate demonstrates some understanding of term

A **profit centre** is a part of an organisation's activities for which it is possible to calculate revenues, costs and thus profits.

Part of business: area/department, brand etc award one mark.

(b) Calculate the expected profit or loss to be earned by *Enterprise* on each crossing from Great Yarmouth to Zeebrugge. You should show your workings. (6 marks)

	Content 2 marks	Application 4 marks
Level 3		4 marks Candidate calculates new profit figure for the <i>Enterprise</i> successfully
Level 2	2 marks Candidate demonstrates good understanding of contribution or relationship between revenue, costs and profits	3 marks Candidate makes good attempt at the calculation including both revenues and costs and profit figure with single error
Level 1	1 mark Candidate demonstrates limited understanding of contribution or relationship between revenue, costs and profits	2–1 marks Candidate makes limited attempt to calculate new profit figure for the <i>Enterprise</i>

Costs of a single crossing on the new *Enterprise*:

Revenue

Lorries 20 x £250 = £5 000

Cars 80 x £60 = £4 800

£9 800

Costs

Fixed costs £8 000

Variable costs

Lorries 20 x £40 = £800

Cars 80 x £10 = £800

£1 600

£9 600

Profit**£200**

The contribution approach:

20 x (£250 - £40) = £4 200

80 x (£60 - £10) = £4 000Less fixed costs = £8 000**Profit = £200**

(c) "...*Enterprise* needs a high level of sales to break even." (line 25). Explain **two** actions that Felix Ferries Ltd might take to reduce the level of sales required for *Enterprise* to break even. (8 marks)

	Content 2 marks	Application 3 marks	Analysis 3 marks
Level 2	2 marks Candidate shows good understanding of break-even or explains two relevant actions or elements of both	3 marks Candidate applies answer effectively to Felix Ferries' circumstances	3 marks Good analysis of the actions Felix Ferries might take to reduce level of sales needed to reach break-even point
Level 1	1 mark Candidate shows some understanding of break-even or identifies one relevant action	2–1 marks Candidate attempts to apply answer to circumstances of Felix Ferries	2–1 marks Limited analysis of the actions Felix Ferries might take to reduce level of sales needed to reach break-even point

Relevant answers might include the following:

- The company might increase its prices to increase revenue, but this will depend on price elasticity and the company faces a lot of competition. It may be more successful with lorries than cars
- The company could try to reduce its fixed costs, for example by purchasing the cheaper version of *Enterprise*
- The company may seek to reduce variable costs, such as operating the ferries with fewer staff
- Borrow a smaller amount reducing interest charges.

(d) Klaudia argued that drawing up cash flow forecasts was vital for the long-term success of the company (line 19). To what extent do you agree with her view? (9 marks)

	Content 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 3 marks
Level 2	2 marks Candidate offers two or more relevant arguments or shows good understanding of cash flow forecasts or elements of both	2 marks Candidate applies knowledge effectively to Felix Ferries' circumstances	2 marks Good analysis of argument	3 marks Sound judgement shown in answer or conclusions
Level 1	1 mark Candidate offers single relevant argument or shows limited understanding of cash flow	1 mark Candidate attempts to apply knowledge to Felix Ferries' circumstances	1 mark Limited analysis of argument	2–1 marks Some judgement shown in response

Relevant arguments might include the following:

For Klaudia's view:

- The company is making major changes to its operation and it is important to try and assess the likely effects on cash flow
- Felix Ferries is taking out a loan for £10 million and a cash flow forecast may be an essential element of a successful application for finance
- The company had not been profitable recently and may have limited cash reserves
- The trade is seasonal and cash inflows may be patchy, especially during the winter months.

Against Klaudia's view:

- The company's problem is with profits, this is why they are introducing the new ferries
- Klaudia's statement relates to the long term whereas cash flow is important in the short term
- The forecasts may be inaccurate as the company is undergoing major changes
- Drawing up a forecast does not mean that the company will manage its cash successfully.

Evaluation may centre on whether it is vital/consider different time periods.