



General Certificate of Education (A-level)
June 2011

Business Studies

BUSS1

(Specification 2130)

Unit 1: Planning and Financing a Business

Mark Scheme

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process 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 standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or 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. Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether candidates' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5 marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate. In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data.** For example, in responding to Question 2(c), a candidate might achieve good marks for application by arguing that Kate's desire to improve quality might increase her variable costs and thus lead to lower profit levels than those forecast in **Figure 1**. Consequently, it will be more difficult for her to achieve her profit target.
- **By manipulating data.** For example, when answering Question 2(c), candidates might present a relevant argument for or against her aim to gain a reputation for quality. The candidate might then use the data in **Figure 1** to calculate that Kate's Catering will make £76 000 profit over the four years (£19 000 per annum) if her projections are correct, thus failing to reach her target of £20 000 per annum.
- **By being consistently in context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario.

If a candidate makes a single, simple reference to the context when developing an argument, this is reasonable application. An example of this in answering Question 2(a) could be that a benefit of using the consultant was the assistance that his advice gave Kate in helping her to produce an accurate expenditure budget.

For application to be creditworthy, it must be used as part of a relevant argument. Some candidates simply copy out part of the case study. This should **not** receive credit. For example, in Question 2(a) it is necessary to explain how the consultant's advice on public liability insurance might help Kate's business to succeed.

ANALYSIS

Good analysis is shown when a candidate develops a chain of argument with a clear focus on the question. For example, when responding to Question 2(b), a line of argument could show how Kate's detailed research into costs would have helped her to assess the likely profitability of the business. However, the apparent absence of any research into her future income levels would have undermined these benefits as the revenue predictions seem to be largely guesswork. As a consequence, Kate's business may be established with false expectations.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. For example, in Question 2(c), the decision to offer trial menus will help Kate's reputation but would only be the first step in her attempt to establish a reputation for high quality. Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the candidate's evaluation. For example, a candidate may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for Quality of Written Communication.

1

Total for this question: 20 marks

1 (a)	What is meant by the term 'franchisee' (line 16)?	(2 marks)
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Definition: A franchisee is a business that is given the right to use an idea/product/brand belonging to another business (**1 mark**) in return for a payment of money/loss of some control (**1 mark**).

Maximum of 2 marks (AO1)

1 (b)	What is meant by the term 'income budget' (line 46)?	(2 marks)
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Definition: An income budget is the agreed, planned revenue or sales of a business over a (future) period of time.

1 mark for 'planned' (accept expected or forecast); **1 mark** for 'revenue or sales' or 'money received' or 'cash' received (but not income).

Maximum of 2 marks (AO1)

1 (c)	Kate thought that her variable costs per business meeting might increase by 5%. Calculate the change in her break-even output if this increase occurs.	(6 marks)
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Correct answer: 14 or 15 (meetings) = **6 marks**

Correct calculation of 5% increases in variable cost per meeting = £80 + (5% of £80)
= £84 **(1 mark)**

Break-even number =
$$\frac{\text{Fixed costs}}{\text{Average spend per meeting minus variable costs per meeting}}$$

(2 marks for correct formula, written or numeric **1 mark** if partially correct)

Answer =
$$\frac{£50\,000}{£200 - £84} = \frac{£50\,000}{£116 \text{ (1 mark)}} = 431 \text{ or } 432 \text{ meetings (1 mark) (5 marks)}$$

Change in break-even output = 431 (432) – 417 **(1 mark)**

(Use **OFR** if any parts of the calculations are incorrect).

1 (d) Calculate the size of the market for catering for business meetings in Manford for the year 2012. (4 marks)

Correct answer (Value): £437 500 (4 marks)
NB if no £ sign in answer or the body of the calculation 437 500 (3 marks)

Correct answer (Volume): 2187.5 customer/meetings (4 marks)

Total market (Value) =

$$\frac{£70\,000}{16} (1) \times 100 (1) = £437\,500 (1)(\text{Value}) \quad \text{or} \quad \frac{£70\,000}{0.16} (1) = £437\,500 (1)(\text{Value})$$

OR

Total market (Volume) =

$$\frac{350}{16} (1) \times 100 (1) = 2187.5 (1)(\text{Volume}) \quad \text{or} \quad \frac{350}{0.16} (1) = 2187.5 (1)(\text{Volume})$$

(Use **OFR** if any parts of the calculations are incorrect).

1 (e) Explain how the findings of Kate's qualitative market research might have benefited her business. (6 marks)

Level	Descriptor	Marks	AO
L3	Good application	6–5	AO2
L2	Good knowledge or Reasonable application	4–3	
L1	Limited knowledge	2–1	AO1

Definition: The collection of information about the market based on subjective factors/opinions/reasons (1 mark).

Understanding can be shown by:

- a definition of qualitative market research

OR

- by the candidate knowing which market research is relevant. (1 mark)

Possible benefits might include the following:

- Kate's discussions with businesses enabled her to discover that customers wanted a greater emphasis on vegetarian catering than Kate had expected
- promptness of delivery and friendly service were viewed as more important than the quality of the food
- Kate's conversations with her mother helped her to gain a qualitative understanding of one organisation within the market
- the consultant advised Kate on the link between ingredient costs and selling prices.

2

Total for this question: 40 marks

2 (a)	<i>Analyse the benefits to Kate's business of using a consultant.</i>	<i>(9 marks)</i>
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Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9	AO1/ AO2/ AO3
L4	Good application AND Reasonable analysis or Good analysis AND Reasonable application	8–7	
L3	Reasonable application AND Reasonable analysis or Good application or Good analysis	6–5	
L2	Knowledge AND Reasonable application or Knowledge AND Reasonable analysis	4–3	
L1	Knowledge	2–1	

A consultant is someone who is not employed by the business (**1 mark**) but is brought in to provide advice (**1 mark**).

Maximum: 2 marks

Possible benefits to Kate's business might include the following:

- the consultant provided Kate with cost data which helped her to provide an accurate expenditure budget. This enabled her to set a suitable price and forecast her likely profit level
- the consultant also helped Kate to set suitable prices by giving her specific advice on the link between ingredient costs and the selling price for food in the catering industry
- the consultant gave Kate financial information on the risk and rewards of a franchise in comparison to an independent business. This helped Kate to make a more informed judgement when choosing between these two options for a business start-up
- the consultant's advice on food hygiene and health and safety was 'invaluable' to Kate because it made sure that she was not operating illegally or in an unsafe manner when she started
- the consultant made her aware of the need for public liability insurance and its costs. This reduced the risks of Kate losing money through legal action by customers and also helped her budgeting
- the consultant advised her to complete a business plan in order to get financial help.

2 (b) *Do you think that the strengths of Kate's business planning outweigh the weaknesses? Justify your view.* (15 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	10–9	AO1/ AO2/ AO3
L4	Good application AND Reasonable analysis or Good analysis AND Reasonable application	8–7	
L3	Reasonable application AND Reasonable analysis or Good application or Good analysis	6–5	
L2	Knowledge AND Reasonable application or Knowledge AND Reasonable analysis	4–3	
L1	Knowledge	2–1	AO1

Business planning involves reporting on the marketing strategy, operational issues and financial requirements and implications of a business start-up.

Strengths of Kate's business planning might include the following:

- Kate set clear objectives. These enabled her to monitor the business's progress
- Kate was creative and had innovative ideas. Her business was set up to play to these strengths
- Kate's planning was completed promptly allowing her to benefit from early sales and inflow of revenue
- Kate was prepared to take advice. Both her mother and the business consultant gave advice that improved the business, such as the consultant's advice on costs. She also undertook useful qualitative research
- Kate's plan showed initiative in providing trial catering to attract customers
- Kate established a unique position within the market differentiating her business from its competitors
- Kate recognised the importance of the business plan for getting financial support.

Weaknesses of Kate's business planning might include the following:

- Kate's first objective is difficult to measure and is therefore of limited usefulness
- Kate's market research was superficial. She used no quantitative market research and only surveyed four businesses for her qualitative market research
- there were signs that Kate preferred not to take financial risks. This led to her choosing to pay a high rent for her kitchen, ignoring the consultant's advice. This rent was one third of the price of buying the property
- Kate appeared to ignore certain elements of running a business, notably the need for marketing
- although she researched costs she did not appear to plan her sales income, relying on estimates.

Evaluation:

Kate's planning was strong in terms of creativity, but her market research was incomplete and marketing appeared to rely purely on word-of-mouth advertising. Her financial research was sound in terms of costs but guesswork with respect to sales revenue, although she did make useful contacts that would have helped her estimates of sales revenue. Her flexibility and general willingness to take advice could outweigh her lack of thought on marketing and some flaws in her financial planning.

Credit will be given to candidates who justify their logic as Kate's business planning has both positive and negative features.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate orders his/her ideas.

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

2 (c) *Do you believe that Kate's Catering will achieve its two main objectives?
Use **Figure 1** and the information in the case study to support your view.
(16 marks)*

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	11–10	AO1/ AO2/ AO3
L4	Good application AND Reasonable analysis or Good analysis AND Reasonable application	9–7	
L3	Reasonable application AND Reasonable analysis or Good application or Good analysis	6–5	
L2	Knowledge AND Reasonable application or Knowledge AND Reasonable analysis	4–3	
L1	Knowledge	2–1	AO1

Objectives are aims **(1 mark)** that are quantifiable/measurable **(1 mark)**.

Based on the information in the case study, the success of *Kate's Catering* should be assessed against the two main targets set by Kate:

- establishing a reputation as the highest quality caterer for business meetings in Manford
- achieve an average profit of £20 000 per annum for the four years from 2012 to 2015, inclusive.

Possible reasons suggesting that Kate's Catering will achieve its two main targets might include the following:

- Kate offers flexibility and high quality food, both of which should aid the business reputation
- her initial trials have proved to be successful, suggesting that the business should gain a good reputation
- Kate's budgets indicate a budgeted profit of £28 000 in 2014 and £46 000 in 2015
- the early feedback is positive and so Kate's idea should attract customers.

BUT Kate's forecasts suggest that the size of her business will grow significantly in each year. This does not seem to be based on scientific research or income.

Possible reasons suggesting that Kate's Catering will NOT be a successful business might include the following:

- Kate's reputation may deteriorate as the business grows as she will need to involve other staff more
- Kate's own budgets suggest that she will only achieve a profit of £76 000 over the four years (an average of £19 000 per annum).

BUT the overall profit for 2014 and 2015 is £74 000, when Kate has forecast large increases in sales that have not been fully researched.

- the budgeted costs may not include a salary for Kate. If this is the case, it will cause her difficulties in 2012 and 2013
- the rate of growth appears to be optimistic. Unless the market is expected to grow, her sales forecast for 2015 implies a market share of over 36%. This seems to be optimistic for a new business.

Arguments based on the quality of the data will be accepted, if relevant.

Evaluation:

Overall, the data suggests that Kate may achieve a good reputation but with only a 16% market share, it is questionable whether this reputation will be better than more established competitors. According to Kate's own projections, her financial target will be narrowly missed. This too will require rapid growth that may be optimistic. Although it seems unlikely the two targets will be met, credit will be given to arguments based on valid assumptions. Evaluation may well also consider the reliability of the data; the cost data appears to be more reliable than the income data.

For Evaluation, you should award marks using the grid below:

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate orders his/her ideas.

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
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