



**General Certificate of Education (A-level)
January 2013**

Business Studies

BUSS2

(Specification 2130)

Unit 2: Managing 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 students' 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 students' 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 students' 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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Set and published by the Assessment and Qualifications Alliance.

	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Students give accurate definitions of relevant terms. Students 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	Students 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. Students will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Students use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, students 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	Students 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. Students 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	The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students will be assessed according to their ability to: <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 The assessment of the quality of written communication is included in Assessment Objective 4 .

GUIDANCE FOR MARKING

When marking a response it is important to take an overview of the answer at the end. You should read the response as a whole to see how the arguments develop and how effective the skills are within the overall response.

Having read the whole response, you must then make a decision on the overall quality of the different skills demonstrated - is the quality of the application good? What about the analysis of the question? What about the quality of the evaluation of the question?

Markers should mark from the top down – is it good? If not, is it reasonable? If not, is it limited? Start with the top level and work downwards rather than the other way around.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Application occurs when a response is in context. For example, it relates to the given scenario or the particular issues and problems facing the business or industry. Application may also be shown through an awareness of real word data or real world cases.

Good application means the response is well applied to the context. It should be annotated as GAp. This can be demonstrated in different ways; for example, the response may:

- **Be firmly embedded in the context.** The arguments made within a response may, overall, relate well to the given context recognising key aspects of the situation. This insight into the context may occur in one instance or be a combination of insights that show a good awareness of the specific issues facing the business
- **Combining information effectively.** For example, candidates may appreciate the meaning and significance of one aspect of the case in the context of another aspect of the business situation. This combination of factors can show a good insight into the context
- **Manipulating data effectively.** For example, candidates may use some numerical data in one part of the case and relate this to another relevant and significant figure elsewhere in the case; by combining these effectively candidates can show a good grasp of the context.

Reasonable application makes some reference to the context in support of the argument(s) but:

- is not necessarily well developed
- does not show much appreciation of the significance of aspects of the context.

It should be annotated as RAp.

A mainly descriptive reference to the context would be a limited response.

ANALYSIS

Analysis occurs when students build arguments that show an understanding of cause and effect.

Good analysis should be annotated as GAn. It may occur when:

- the answer as a whole has analysed key issues in the question well
- one line of argument is well developed.

Good analysis is focused on the precise question, it will provide a logical, coherent, multi-stage argument overall; examining the causes and effects of an event as appropriate and linking the different aspects of the question effectively. It may make use of relevant theory to develop the argument, selecting relevant information and using appropriate methods effectively to build up the links between the stages.

Reasonable analysis is shown when there are relevant arguments explained, but:

- these are less developed
- there are less clear chains of argument (for example, stages in the argument may be missing or unclear or assumed)
- these are generic rather than addressing the issues in the question directly.

Reasonable analysis may be less complete than 'Good' analysis, or less directly focused on the specific question. Annotate as RAn.

Weak analysis, that is basically an assertion or of little relevance to the question, is a limited response.

EVALUATION

This occurs when a judgement is made. Judgements may occur throughout a response.

Good judgement directly answers the specific question set. It:

- provides a clear and well supported overall response to the question set
- is built on analysis and evidence and is in the context of the given question.

Reasonable judgement may:

- be making judgements on relevant arguments, but not the question as a whole
- have addressed some aspects of the question but not directly answers the specific question set or may have some support but is not built on effective analysis. It may be rather generic, may be incomplete or not fully consistent given the arguments made.

Limited evaluation is judgement that is based mainly on assertion or only limited support.

The decision on the **Quality of Written Communication** should be used to adjust a mark within the level selected on the basis of the student's evaluation. For example, a student may have been awarded the lower mark in E2 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 E2.

A well written answer without any evaluation can receive one mark for quality of language.

1

Total for this question: 40 marks

1 (a) Calculate the rates of labour turnover for Allday Ltd for 2011 and 2012. (5 marks)

Correct answer: 2011: 25.48% 2012: 29.75% (5 marks)

2011: accept 25%, 25.4% or 25.5%

2012: accept 29.7% or 29.8%

- labour turnover measures the percentage of a business's workforce that leaves its employment during a year **(2 marks) – 1 mark for partial**
- labour turnover = number of staff leaving during a year x 100/average number of employees – Correct formula **(2 marks) – 1 mark for partial**
- labour turnover in 2011 = $79 \times 100/310$ **(1 mark)** = 25.48% **(1 mark - ofr)**
- size of *Allday Ltd's* workforce in 2012 = $310 \times 0.9 = 279$ **(1 mark)**
- labour turnover in 2012 = $83 \times 100/279$ **(1 mark)** = 29.75% **(1 mark- ofr)**.

1 (b) Analyse the possible reasons why Allday Ltd changed its promotional mix from the start of 2012. (8 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	8
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	7–6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- the promotional mix is the ways in which a business can communicate with its customers.

Possible themes for application might include the following:

- the business is targeting a market niche for ‘unique groceries’
- the company has made a substantial change to its product range from the start of 2012
- the company’s profit margin has increased substantially and it raised £19 million from selling surplus shops
- Allday Ltd* has switched from sales promotions to advertising.

Lines of analysis might include the following:

- a company launching new products has to create awareness of these amongst its consumers, especially if it is targeting a new market niche
- the company’s financial position will affect the marketing budget it has available and therefore the type and extent of advertising that is possible
- a company’s promotional activities must fit the target market at which it is aiming – a tight focus on the right consumers is part of successful marketing
- a company’s promotional activities should fit its brand image and be attractive to the consumers that it is targeting.

Good analysis focuses on why the company changed its promotional mix.

1 (c) *Do you agree that investing heavily in training its shop assistants is the best way for Allday Ltd to improve the performance of its workforce? Justify your view.*
(13 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- training is a process through which an employee gains job-related skills and knowledge.

Possible themes for application:

- the company is operating a different approach and requires different skills from its employees
- the company faces high levels of labour turnover and this rose significantly from 25% to 29% in 2012 (NB: OFR from 1a)
- the company’s average spending on training has risen substantially and is well above the industry average
- the number of employees per store has risen from 5.3 (310/58) in 2011 to 6.98 (279/40) in 2012
- customer complaints per store have fallen from 82 in 2011 to 59 in 2012
- employees have already received a 7% wage rise.

Lines of analysis might include the following:

- training provides skills to the workforce that can enable them to complete their jobs more productively
- high levels of labour turnover can diminish the impact of training as employees with good skill levels leave, perhaps poached by competitors
- an effective system of recruitment and selection is an important determinant of the performance of a workforce ensuring that those appointed have the necessary potential to acquire the necessary skills
- motivation is a major factor in providing good customer service and can increase productivity levels as well as employees’ self-esteem needs may be met in this way.

Good analysis is demonstrated when students develop arguments fully with a clear focus on 'improving workforce performance'.

Reasonable analysis would explain why training is good or has benefits but not focus on improved performance.

Ideas for evaluation might include the following:

- training is important for this company at this time as it is undergoing a substantial period of change, but may only help in the short term
- however, why should training be limited to shop assistants, others such as managers may need further training too
- the company may not be able to sustain expenditure on training at this level, once the funds from selling its surplus stores runs out as it is much higher than its competitors.

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

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

Level	Descriptor	Marks
E3	Judgement of whether or not training is the best way with well supported justification. Answer has a logical structure throughout, with effective use of technical terms.	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

1 (d) *To what extent do you think that the advantages to Allday Ltd of entering the niche market for 'unique groceries' outweigh the disadvantages? Justify your decision.* (14 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- a niche market is a small segment within a larger market.

Possible themes for application might include the following:

- the company has spent very heavily on advertising during 2012, increasing its expenditure by 210% and making use of magazines suitable for its new target market
- sales revenue has fallen as a result of this development from over £13 million to exactly £10 million
- the company's labour costs per store are significantly higher
- the company's profit margin has risen substantially from 2.8% in 2011 (and it had been higher in 2010) to 8.8% in 2012
- the company's profits have risen significantly from £375 480 in 2011 to £880 000 in 2012.

Good application on this question can be demonstrated by carrying through a relevant calculation that was not directly required such as calculating actual profits for 2011 and 2012.

Lines of analysis might include the following:

- a niche market is generally a smaller market offering the possibility of lower levels of sales for companies
- advantages of a niche market may be reduced levels of competition, allowing more freedom in pricing and the possibility of higher profit margins
- if demand is price inelastic this allows a business to raise its prices with only a relatively small impact on sales thereby boosting the company's sales revenue
- a business entering a new market has to create a brand image (which may be costly). Other costs of operating in a niche market may also be higher
- successful trading in a niche market may result in the entry of larger rivals resulting in lower sales or possibly greater price competition.

Ideas for evaluation might include:

- the advantages may appear greater after one year's trading but can the company afford to sustain this level of marketing expenditure?
- how big is this niche and might other larger rivals such as Sainsbury's enter it?
- the company's objective from this development was to increase profits and they have risen, so the advantages appear significant, at least in the short term
- the company's profit margin has more than tripled and so long as sales volumes can be maintained this approach will continue to deliver increased profits.

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

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout, with effective use of technical terms.	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

Total for this question: 40 marks

2 (a) *Examine the reasons why Boxed Ltd may have experienced cash flow difficulties since 2010.* (7 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	7
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- cash flow is the movement of money in and out of a business over a period of time.

Possible themes for application might include the following:

- the company's sales value has grown at an average rate of 32% over the past three years
- in 2010, the company invested £1.1 million in new production line equipment
- the company has to grant 60 days' trade credit to its customers but only received an average of 27 days from its own suppliers.

Lines of analysis might include the following:

- cash flow problems may arise from overtrading when businesses expand rapidly without arranging access to sufficient funds to finance the expansion. As a consequence, cash outflows may be excessive and not covered by inflows
- the timing of cash inflows and outflows can depend upon the trade credit granted and received. Granting relatively long periods of trade credit may mean that cash outflows are taking place before cash is received
- good financial planning is a central element of managing cash flow successfully enabling businesses to identify periods of cash shortages and to take appropriate decisions
- irregular and unexpected orders can have cash flow implications.

2 (b) Analyse the factors that may have influenced Boxed Ltd's choice of additional suppliers. (7 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	7
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- a supplier is a business that produces parts, components or materials for another business.

Possible themes for application might include the following:

- need for trade credit as the company has a negative cash balance which worsens in the winter months as shown in **Figure 2**
- need for trade credit as the company's sales are increasing rapidly (average of 32% in recent years) and it is ordering new products
- need for low prices as the company's profits have remained flat despite increasing sales revenue resulting in a falling profit margin
- *flexibility as Boxed Ltd* has an increasing number of large customers such as the Staples Group plc.

Lines of analysis might include the following:

- the payment terms offered by suppliers can be important to a business as it can allow it to offer more favourable credit terms to its customers which can be an important marketing tactic
- a flexible supplier is more likely to be chosen as it is more likely to be able to meet the changing needs of its customers (including volumes) which in turn allows business customers to be more effective themselves
- quality is an important issue for most businesses and consistently good quality products help businesses to maintain customer loyalty, win new customers and allow more flexibility in pricing
- pricing can be an important issue in selecting suppliers, especially if the business concerned is selling final products in a market where demand is price elastic.

2 (c) *Boxed Ltd's Directors have now made the decision to double the company's production capacity. Do you agree with this decision? Justify your view.*
 (13 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- capacity measures the maximum amount of output a firm can produce at a given time with its existing resources.

Possible themes for application might include the following:

- the company's sales are increasing by over 30% per annum and it is continually developing its product range
- the sales are seasonal with 65% of sales occurring during five winter months
- the company's labour productivity has increased by over 2% on average over the past three years
- the company experiences regular capacity shortages and has faced higher production costs due to paying overtime to employees
- the company's profits have been 'flat' over the past two years.

Lines of analysis might include the following:

- an increase in capacity will reduce pressure on the business's operations function, making it easier for managers to match supply and demand
- operating with a substantial amount of spare capacity means unit costs rise as fixed costs are increased without sufficient additional output placing downward pressure on profit margins
- increasing the capacity available to the business allows a business to cope with seasonal fluctuations in demand and also to manage steady increases in sales by keeping capacity ahead of demand
- rising labour productivity can reduce the need for increased capacity if employees can increase the volume of output per time period.

Ideas for evaluation might include the following:

- a major influence on this decision would have been *Boxed Ltd's* ability to raise the necessary finance at affordable rates of interest
- the amount of extra capacity to be created may be the issue rather than the principle of creating more
- will demand for the company's products continue to expand so rapidly? It is likely that other businesses may enter this 'increasingly competitive' market
- much may depend upon its ability to continue to win new contracts with large customers such as the Staples Group plc.

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

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout, with effective use of technical terms.	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 (d) Do you think that *Boxed Ltd* should increase its prices by 10% immediately to improve the level of profits earned? Justify your view. (13 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	8
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	7–6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Limited answer based mainly on knowledge <i>or</i> Lacking focus on the question	3–1

Relevant answers might include the following:

- profits are the surplus of revenues over total costs for a trading period.

Possible themes for application might include the following:

- the estimated price elasticity for the industry's products is -0.8 (it may not be the same for *Boxed Ltd*, though it is developing a reputation for quality)
- the company's production costs have been higher than necessary at times due to poor management of capacity, for example it has incurred subcontracting costs
- the company's labour productivity is increasing by about 2% each year which will help to reduce its unit costs and, ultimately, increase profits over time
- if the company increases its capacity as planned it should reduce unit costs (by paying less overtime, for example)
- the market in which *Boxed Ltd* trades is growing which may help to lessen competitive pressures, at least in the short term.

Lines of analysis might include the following:

- quality can have a significant impact on a company's ability to raise prices without losing a high proportion of sales
- reducing costs may improve profit margins which can be an effective means of increasing profits if sales are growing quickly
- an increase in price for a product when demand is price inelastic will result in higher levels of sales revenue
- a business can survive for a period of time without generating high levels of profits, especially if it has generated past profits.

Ideas for evaluation might include:

- the PED figure looks favourable but it is for the whole industry
- why take an immediate decision? Other actions may result in lower production costs and higher profit margins. If this happens profits will rise automatically
- much may depend on how major customers such as Staples Group plc react.

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

Note: Evaluation also assesses students' quality of written communication. When deciding on the level to be awarded, consider the degree to which the student offers 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