



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

Business Studies

BUSS2

(Specification 2130)

Unit 2: Managing a Business.

Final

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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	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 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, it is 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 or consistent.
- 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 this would be a limited response and be L1.

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 use 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” or less directly focused on the specific question. Annotate as Ran.

Weak analysis that is basically assertion or of little relevance to the question is a limited response and be L1.

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
- address some aspects of the question but not directly answers the specific question set
- have some support but is not built on effective analysis
- may be rather generic, 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) Analyse **one** reason why it is important for Zest Ltd to maintain its high levels of quality. (6 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	6
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	5
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	4
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3
L1	Knowledge and/or limited application/analysis	2–1

Relevant answers might include the following:

- a quality product is one that meets customers' requirements fully.

Possible themes for application:

- *Zest Ltd* faces competition from large multinational companies such as Coca-Cola
- product is a vital element of *Zest Ltd's* marketing mix and it can afford to spend relatively little on marketing
- the company has plans to introduce further new products to meet expected changes in the market.

Lines of analysis include the following:

- the company faces tough competition from companies who are able to sell at lower prices and hence it must ensure that it maintains a USP to enable it to justify its higher prices. The USP makes demand for its products more price inelastic
- the company must maintain its quality to ensure that it continues to be stocked by retailers, restaurants and bars, otherwise its products will become less available to the public
- to achieve further growth in sales the company must ensure that its products continue to receive positive reviews as it would be expensive and difficult to repair any damage that is done to its brand image by a dip in quality.

Good analysis should focus on maintaining the company's high levels of quality.

1 (b) Examine how Zest Ltd might improve the performance of its managers. (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	5-4
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3
L1	Knowledge and/or limited application/analysis	2–1

Relevant answers might include the following:

Possible themes for application:

- the business's span of control is quite wide and has increased over the last year to 13
- the company expects its growth to continue at a very high rate
- the company has set itself challenging targets for increasing labour productivity by 5% p.a. over the period 2013–2015.

Lines of analysis include the following:

- the business may seek to narrow its span of control which is relatively wide and may make communication difficult and result in a loss of control by managers
- delegation could be used. In a business that is growing quickly it will become more difficult for managers to take all of the decisions as their workloads grow. Workloads and job allocation can be managed by appointing staff with the necessary skills
- the business may choose to empower its workforce to allow junior employees to reduce the workload carried by managers as well as to improve the motivation and performance of junior employees
- recruit more managers to assist in reducing the span of control, easing workloads and making communication simpler
- training – managers may have seen roles expand and need support in wider skills now required.

Good analysis should have a clear focus on managers' performance.

1 (c) *Henrik believes that the best way for the company to improve its cash flow position is to use debt factoring. Do you agree? Justify your decision. (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	4-3
L1	Knowledge and/or limited application/analysis	2–1

Relevant answers might include the following:

- cash flow is the movement of cash into and out of a business over a period of time
- debt factoring is a service offered by banks and other organisations whereby they 'buy' a business's debts providing an early inflow of cash.

Possible themes for application:

- the company's profit margin is relatively low at 9.2%
- the company's outstanding debts are substantial at £2.1 million and exceed its negative cash balance by a small amount
- the company has grown quickly and the annual rate of growth is forecast to increase to 33%
- *Zest Ltd* is popular with its customers and is developing a stronger position in the market as well as extending its product range.

Lines of analysis might include the following:

- debt factoring can provide a very rapid inflow of a substantial amount of cash if a business has sufficient outstanding debts
- the organisation buying the debts will levy a charge for the service of about 5% of the debts involved. This can be very damaging to a business's profit margin
- negotiating improved trade credit terms can be a 'free' source of cash, so long as a business is able to avoid having to offer extended credit terms to customers whilst receiving more favourable terms from suppliers
- an overdraft offers a very flexible means of dealing with cash flow problems although it is likely to be costly and may reduce a company's profit margin. A short term loan may be less flexible but can offer a cheaper source of finance which helps to protect the profit margin of the business.

Good application could be achieved for example by candidates combining data on outstanding debts and the company's cash balance.

Ideas for evaluation might include the following:

- this is not a short-term problem – the cash flow weakness is likely to continue and may be associated with overtrading – therefore a longer term solution than debt factoring may be required
- it depends on how important the profit margin figure is in the shorter term – factoring could be very damaging to profitability
- how much negotiating power does *Zest Ltd* have with its customers? If it is possible, improved terms of trade credit would be attractive as this would protect its profit margin.

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 reasonable attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Reasonable evidence of a logical structure and little use of technical terms.	1

1 (d) *To what extent do you agree with Henrik’s decision to invest £8.5 million on new technology for the company’s operations? 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	4-3
L1	Knowledge and/or limited application/analysis	2–1

Relevant answers might include the following:

Possible themes for application:

- *Zest Ltd’s* cash position is weak with a negative balance of nearly £2 million and may not be able to manage the repayments on what would be a large loan
- the company has little spare capacity at times during the year and the investment will assist it in managing a growing level of demand
- the company plans to launch more products
- introducing technology will lead to the redundancy of 8% of the workforce.

Lines of analysis might include the following:

- a major investment is likely to place a strain on a company’s cash flow as repayments have to be made causing significant outflows of cash, often some time before inflows occur. Further outflows of cash may occur to pay for training of employees further weakening the company’s cash position
- the introduction of new technology may lead to production being interrupted at a time when sales are rising quickly meaning that orders could be delayed
- the implications of a de-motivated workforce may result in declining productivity levels
- technology may speed up production helping to reduce unit costs and to increase profit margin
- the use of production line technology can help a business to increase its capacity and to manage variations in demand without having to acquire additional capacity.

Good analysis will develop arguments linking to the effect(s) on the decision.

Ideas for evaluation might include:

- in the long-term this is the correct decision as the company needs more capacity and this will provide it
- productivity has 'slipped' recently and the company has set demanding targets which this investment may make more feasible
- in the short-term this may be beyond the company's means and there may be doubt about whether it will be able to borrow this amount of capital.

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 reasonable attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Reasonable evidence of a logical structure and little use of technical terms.	1

2

Total for this question: 40 marks

2 (a) Calculate Wild Side Ltd's profit variance for January – March 2013 and state whether it was adverse or favourable. (6 marks)

	October – December, 2012 £000s		January – March, 2013 £000s	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Sales Income	3 208.5	3 501.9	3 150.0	3 078.1
Cost of stock	1 183.9	1 246.0	1 134.2	1 189.5
Interest on loans	241.6	245.0	242.0	245.1
Waged & salaries	892.8	917.2	909.9	950.7
Marketing costs	324.5	297.0	303.4	303.8
Other costs	455.3	456.9	442.8	425.8
Total costs	3 098.1	3 162.1	3 032.3	3 114.9
Profit or (Loss)	110.4	339.8	117.7	(36.8)

Award one mark for each of the following (all are £000s):

- totalling budgeted expenditure for Quarter One: £3032.3
- calculating budgeted profit for Quarter One: £117.7
- totalling actual expenditure for Quarter One: £3 114.9
- calculating actual loss for Quarter One: (£36.8)
- identifying that this is an adverse variance, having attempted a relevant variance calculation.

Up to two marks are available for demonstrating knowledge of the calculation of a profit variance, either by a formula or a definition.

2 (b) *Wild Side Ltd sells products with short product life cycles. Analyse the possible consequences of this for **one** element of the company's marketing mix. (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	5-4
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3
L1	Knowledge and/or limited application/analysis	2-1

Relevant answers might include the following:

- the product life cycle describes the stages that a product passes through during its existence in the marketplace
- the marketing mix is the combination of the 4Ps (price, place, promotion & product) used by businesses to influence consumers' buying decisions.

Possible themes for application:

- the company spends over 10% of its income on marketing – in excess of £1.25 million in 2012
- the company's cash position is generally weak, and it makes extensive use of its large overdraft
- selling in the southern hemisphere does extend the product's life cycle and is an important market for the company.

Lines of analysis might include the following:

- prices: the company may have to charge relatively high prices to recoup its design and selling costs during what is a short selling season for each product
- product: by seeking extension strategies for its products the company can sustain inflows for longer periods and potentially increase its profit margins
- product: the company is continually engaged in new product development to ensure that it is able to meet its customers' needs during the next season
- promotion of individual products and the brand is vital to create awareness of new products and of the brand
- place: there is pressure on the company to retail its products in as many suitable outlets as possible to maximise sales during a short selling period.

2 (c) *To what extent do you think that Claire's plan to change employee payment methods was a good one? Justify your decision. (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	4-3
L1	Knowledge and/or limited application/analysis	2–1

Relevant answers might include the following:

- motivation refers to the factors that influence people to behave in certain ways.

Possible themes for application:

- expenditure on wages and salaries is showing adverse variance in 2013 (£40 800 A) whilst income from sales declines
- the company is moving into a loss-making position in the first quarter of 2013 – its loss is £36,800 for the three months
- the company is experiencing cash flow problems and relies heavily on its overdraft
- the company is using two methods of financial motivation: profit sharing and piece-rate pay
- unit costs of the company's clothing rose by 4.5% in 2012
- the pay system that was adopted has been judged to be 'generous' by employees
- cost of change being £175 000 per year.

Lines of analysis might include the following:

- designers may respond positively to share in profits and this may help to attract high quality employees
- the company may experience cash flow problems if its manufacturing costs rise as a result of introducing piece-rate pay, especially if inflows do not increase as a consequence
- the company's profit margins depend on its unit costs and piece-rate pay may increase these thereby reducing the profit margins earned by the business
- quality may be reduced as a consequence of employees' rushing to maximise earnings from the piece-rate pay system
- a piece rate system may lead to increased levels of productivity by workers resulting in lower unit costs and ultimately increasing profit margins
- other approaches such as redesign of jobs to allow empowerment may improve motivation.

Ideas for evaluation might include the following:

- the use of profit sharing may be worthwhile as this will only be paid in the event of profits being made
- the case for piece-rate pay looks less compelling given the company's increasing financial difficulties
- a critical factor will be the impact on labour productivity in the factories; if these increase significantly, this approach could prove successful
- the best solution to the deterioration in motivation will depend upon its cause.

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 considering the plan as a whole. 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. Reasonable evidence of a logical structure and little use of technical terms.	1

2 (d) *Erin believes that Wild Side Ltd's competitiveness depends heavily on the quality of the design of its clothes. Do you agree with her? Justify your view. (14 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	4-3
L1	Knowledge and/or limited application/analysis	2–1

Relevant answers might include the following:

- competitiveness refers to a business's ability to offer better value to its customers than its rivals.

Possible themes for application:

- the company produces a highly distinctive range of clothing
- price elasticity of demand for the company's products is estimated to be -0.8
- the company spends heavily on marketing (10% of sales revenue), yet its sales fell in the first quarter of 2013
- the product life cycles of this type of product are short – normally one season
- the company is increasingly selling globally, including the southern hemisphere and is using the internet more extensively
- the company receives a lot of attention from the media and retailers
- the company's market share is rising.

Lines of analysis might include the following:

- if a company sells a distinctive product it offers different benefits to those of rival businesses and therefore the design of the product must be a vital element in shaping competitiveness
- if demand for the company's clothing is price inelastic it means that sales will not be responsive to changes in price suggesting that the product (and hence design) is important to consumers and makes the company competitive
- marketing is essential to bring products to the attention of potential consumers – without awareness of the products' existence consumers will not purchase and the business will not be competitive
- competitiveness is also linked to reaching customers successfully – this is impossible without effective methods of distribution to bring products and consumers together.

Good analysis can be achieved when candidates relate arguments on quality of design/other factors to the business's competitiveness.

Ideas for evaluation might include:

- there is some truth in Erin's statement. The company's products are distinctive and this makes them attractive to customers and this is due to the designers
- Erin may be right, but overstating the case. Quality of design is not the only factor influencing the company's competitiveness. These products change regularly and advertising is also important.

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 reasonable attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Reasonable evidence of a logical structure and little use of technical terms.	1