



## General Certificate of Education

# Business Studies 6131

*BU5W Business Report and Essay*

## 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 Level candidates, mainly 18 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates at the end of a full A Level course.*

### **Positive Marking**

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

### **Mark Range**

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

### **The use of Levels of Response**

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

*Fundamental to a Levels of Response approach is that there 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.

- |         |   |                |
|---------|---|----------------|
| LEVEL 4 | Complex ideas are expressed clearly and fluently. Sentences and paragraphs follow on from one another smoothly and logically. Arguments are consistently relevant and well structured. There are few, if any, errors of grammar, punctuation and spelling.  | <b>4 marks</b> |
| LEVEL 3 | Moderately complex ideas are expressed clearly and reasonably fluently, through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling.  | <b>3 marks</b> |
| 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. | <b>2 marks</b> |
| 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.  | <b>1 mark</b>  |

**Total 4 marks**

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

As an independent management consultant, write a report to the Board of Directors of Gent plc analysing the case for and against the proposed takeover of Satso plc and providing a fully justified recommendation about whether it should go ahead.  
*(2 marks are included for appropriate report format.)* *(40 marks)*

**Business report**

<b>Skill</b>	<b>Marks</b>	<b>Description</b>
<b>Content</b>		
Level 3	8–6	Good understanding/explanation of relevant factors, eg range of factors understood and/or depth of understanding
Level 2	5–3	Reasonable understanding/explanation of relevant factors
Level 1	2–1	Limited understanding, eg descriptive or basic/imprecise understanding of relevant factors
Level 0	0	No understanding demonstrated
<b>Application</b>		
Level 3	8–6	Well related to context
Level 2	5–3	Reasonably related to context
Level 1	2–1	Limited relation to context
Level 0	0	No application
<b>Analysis</b>		
Level 3	8–6	Good analysis, eg relevant factors well developed
Level 2	5–3	Reasonable analysis of relevant factors
Level 1	2–1	Limited analysis of relevant factors
Level 0	0	No analysis
<b>Synthesis</b>		
Level 3	5–4	Well structured report
Level 2	3–2	Reasonable structure
Level 1	1	Poor structure
Level 0	0	No structure
<b>Evaluation/judgement/recommendations</b>		
Level 3	11–8	Well supported recommendation/evaluation/judgement
Level 2	7–3	Recommendations/evaluation/judgement with some support
Level 1	2–1	Limited recommendations/evaluation/judgement lacking support
Level 0	0	No evaluation/recommendations

**Answers may include:****Arguments in favour of the takeover:**

- By joining with another firm Gent may have more bargaining power against the supermarkets and catalogue stores; this might lead to better prices and profit margins. Could share distribution channels
- Both firms have excess capacity which is inefficient; by joining together they may be able to share facilities and sell off unnecessary equipment/plant; could, for example, consider focusing production in Gent's facilities and sell off Satso's fixed assets
- Horizontal integration; may gain economies of scale through the deal, eg dealing with suppliers, sharing research and development facilities
- Satso has more sales overseas and with the predicted fall in the value of the pound against the euro may create more export opportunities (although this fall is just two points in time - what happens in between? Where are the export markets?)
- Satso has greater investment in research and development and a presence in the premium segment. This may help sustain sales - the premium segment is taking over more of the market in terms of volume and value and at the moment Gent has no presence in it. This may be a quicker way to get involved in this segment than starting investment in it from scratch
- Productivity at Satso is higher; can Gent learn from this?

**Arguments against the takeover:**

- May lead to intervention by the Competition Commission as it takes Gent to over 25% of the market
- Organisational structures are different so takeover will involve reorganisation and possibly resistance (eg unions)
- Gent seems to be paying premium price over and above book value of the company (on the other hand, brands do not seem to be listed and it is described as a well known brand)
- There seem to be liquidity problems with Satso (net current assets are negative) - can these be sorted out?
- To what extent does the takeover fit with mission statement, eg if efficiencies or rationalisation lead to redundancies does this clash with idea of social responsibility? Will it generate a high return?
- May be union opposition. Employees own 9% of the business; will they vote in favour; what about institutional investors?
- Higher interest rates may reduce demand for white goods although again this is only two points in time; what is happening to interest rates in between?

**Overall:**

- The market is declining; is this a long-term solution to Gent plc's problem? What plans does it have in the other areas of the business?
- Depends on how different the cultures are in terms of possible culture clashes and how the takeover is managed
- Depends on whether production can easily be combined and what other savings there are to be made, eg extent of economies of scale
- Depends on extent to which this can turn the business around; will it improve performance significantly and in the desired time frame? Takeovers often do not work and if they do they often take time. The time involved may be a problem given the 'intense pressure' from investors
- Depends on likely reaction of Competition Commission; will it see this as a threat to the public interest?
- Is this just something the new Managing Director of the microwave division wants for his/her own career?
- Gent's owners seem to want significant improvements quickly. It is unlikely this deal will provide this. The microwave division is only 14% of turnover, the market is shrinking and takeovers often fail
- Would be useful to have some industry forecasts and more information on Gent's financial position.

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

BP is a global energy business involved in the exploration for, and the production and retailing of oil and gas. Its profits in the first half of 2004 were \$8.6bn. Nowadays, to what extent is profit a good indicator of the success of a business such as BP? *(40 marks)*

**Answers may include:**

- Shows that the value of sales is greater than the value of inputs used up
- Generates rewards for investors
- Generates funds for investment to help growth and innovation
- Common financial yardstick as a means of comparing firms.

**But**

- Need trend figure, eg what happened in second half of the year? Previous years?
- Need to consider profit quality
- Need to be aware that there are different measures of profit so need to be consistent when comparing over time and between firms
- Need to put in context, eg relative to capital employed, sales, other firms (such as Shell and Exxon)
- Currency problems – how do you decide which exchange rate to use? Especially relevant when dealing with global firms such as BP
- Need to be aware that high or low profits can be caused by external factors, eg world oil prices which may mean the ‘success’ is to some extent out of its control
- Tax changes can influence the net profit of a business such as BP
- Depends on objectives of firm, eg what do its managers or investors set out to achieve?
- Recently (picking up on the reference to “nowadays”) indicators such as emissions, treatment of employees, environmental concerns have been used as well particularly for this sort of business
- How to measure success may vary from one stakeholder group to another.

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

Over 50% of the annual sales of toys in the UK occur between October and December. Discuss the possible implications of this for firms operating in this industry. (40 marks)

**Possible answers may include:****Manufacturers and suppliers:**

- May have cash-flow problems, eg producing in advance of orders
- Have to have flexible production, eg may need temporary staff, lean systems in order to be able to produce more at some times of the year than others. May have low capacity utilisation levels for much of the year *or* produce throughout the year and hold high levels of stocks in which case there may be significant warehousing costs (eg security)
- Risk: what if the demand does not occur? Especially in this market where trends and fads are common and may not be easy to predict. Could be a) left with the wrong type of toys or b) not have enough of other types that have proved popular. May make forecasting more important, eg keeping in contact with interests of parents and children. May mean higher returns are required to justify taking the risk of being in the industry.

**Retailers:**

- May be less of a risk for them compared to producers as they do not have to order so long in advance although in the case of a sudden fad they may have to compete to get hold of available supplies.

**Might consider:**

- What happens in other markets apart from the UK? Are peak seasons different elsewhere? Can firms spread the risk and stabilise sales by selling in several countries/markets?
- Do firms operate in other markets so not just reliant on toys (eg manufacture other products or sell other things?)
- Are all toys this seasonal or are sales of some relatively stable?
- Are sales stable the rest of the year or are there other peaks?
- Is this a long-term pattern? In which case they have some experience of dealing with this.

4

**Total for this question: 40 marks**

In 2004, the managers of Jaguar, the luxury car maker that is owned by Ford, announced that it was closing one of its factories as a result of unfavourable macro-economic conditions. To what extent is Jaguar's competitiveness likely to be determined by macro-economic factors?  
*(40 marks)*

**Possible answers may include:**

- Impact of exchange rate on its export prices; will affect international competitiveness
- Impact of exchange rate on the price of imported competitors' cars and imported components for Jaguar
- Impact of income on sales especially luxury cars which are likely to be income elastic
- Impact of inflation on competitiveness (eg internationally)
- What is important to a firm such as Jaguar is likely to be macroeconomic factors worldwide rather than just the UK
- Impact of interest rates on costs.

But, many other factors will influence the ability of Jaguar to compete, for example:

- design and styling
- competition
- marketing
- production costs
- demands on Ford's resources, eg what funding and support does Ford provide? Does the Ford association hinder or help Jaguar?

**Overall:**

- At a particular moment, macro factors may be key, eg if a strong pound but not always
- Managers may be blaming outside factors when they are actually to blame
- Likely to be combination of factors rather than just macroeconomic ones
- Depends on the ability of managers to predict macroeconomic change and plan accordingly (and possibly even try to influence the environment to create favourable conditions, eg by lobbying government).

5

**Total for this question: 40 marks**

The UK tobacco industry is under attack from pressure groups and from changes in government legislation. Evaluate the possible implications of these developments for the strategies of tobacco companies. *(40 marks)*

**Possible answers may include:**

- May need to find new markets overseas
- May need to stimulate demand with new product development
- May try to reverse the trend, eg lobbying
- May need to diversify into other products
- May mean fierce competition within the market - fighting for market share of a market that is not growing
- May try to focus on specific segments where there may be growth
- May simply try to milk UK market as a cash cow and fund other projects.

Candidates may refer to, eg legislation on advertising, anti-smoking campaigns, pressure to ban smoking in pubs, restaurants and public places, possible legal action against tobacco companies over a failure to warn smokers of the risks involved.

**But:**

- Still a big market
- Depends on how significant the UK market is to overall sales and profits
- Depends on how successful these ‘attacks’ are
- Tobacco companies may already have taken these attacks into account – not a sudden development
- Depends on their view of the future - unlikely to get better in the UK in the future, eg possibility of banning smoking in public places
- Extent to which firms believe in corporate social responsibility.

**Essay**

<b>Skill</b>	<b>Marks</b>	<b>Description</b>
<b>Content</b>		
Level 3	8–6	Good understanding/explanation of relevant factors
Level 2	5–3	Reasonable understanding/explanation of relevant factors
Level 1	2–1	Limited understanding, eg descriptive or very basic/imprecise understanding of relevant factors
Level 0	0	No understanding
<b>Application</b>		
Level 3	8–6	Well related to context
Level 2	5–3	Reasonably related to context
Level 1	2–1	Limited relation to context
Level 0	0	No application
<b>Analysis</b>		
Level 3	8–6	Good analysis, eg relevant factors well developed
Level 2	5–3	Reasonable analysis of relevant factors
Level 1	2–1	Limited analysis of relevant factors
Level 0	0	No analysis
<b>Evaluation/judgement</b>		
Level 3	16–12	Well supported judgement/evaluation
Level 2	11–6	Judgement/evaluation with some support
Level 1	5–1	Judgement/evaluation lacking support
Level 0	0	No judgement/evaluation