

Version



**General Certificate of Education (A-level)
June 2011**

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 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	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: <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 .

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 full 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(a), a candidate might achieve good marks for application by combining the notions that 60% of sales are to existing customers and the company relies on word-of-mouth advertising as part of an argument explaining the importance of quality to this company.
- **By manipulating data.** For example, when answering question 1(d), candidates might use the data in **Figure 1** to calculate that Divine Chocolate holds 0.34% of the UK market for chocolate. When used as part of a relevant argument, this can receive appropriate marks for good application.
- **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 1(b) could be that the company pays a 10% fair trade premium when buying its supplies of cocoa beans.

For application to be creditworthy, it must be used as part of a relevant argument. Some candidates simply copy out part of the case. This should **not** receive credit.

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(d), a line of argument which puts the case for hiring temporary workers and explains the benefits in terms of matching the workforce's production levels to the likely demands of customers thereby improving flexibility and productivity and overall workforce performance would represent good analysis.

Reasonable analysis is shown through less developed chains of argument or those with a less clear focus on the question. For example, in question 2(c), the offering of trade credit delays cash inflows to the business weakening its cash flow position. 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 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) (i) Calculate Divine Chocolate Ltd's net profit margin for 2008 only. (3 marks)

Correct answer: 4.60% (3 marks)

$$\text{Profit margin} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100 \text{ (1 mark)}$$

OR

$$\text{Divine Chocolate Ltd} = \frac{\text{£0.57m}}{\text{£12.38m}} \text{ (1 mark)} \times 100 = 4.60 \text{ (1 mark)} \% \text{ (1 mark)}$$

Award **one mark** for assembling correct figures, **one mark** for a correct numerical answer and the **final mark** for expressing the answer as a percentage.

Alternative answers:

4.6 or £4.60 – **2 marks**

0.046% – **2 marks**

0.046 – **1 mark**

6.36% (the 2007 figure) – **1 mark**.

1 (b) Analyse **two** influences on Divine Chocolate Ltd's pricing decisions. (8 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	8	AO1/ AO2/ AO3
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	2–1	

Possible themes for application:

- the company is paying a premium price for cocoa bean supplies
- price elasticity of demand for chocolate bars is estimated to be -0.3 (price inelastic)
- the pricing decisions of major rivals such as Cadbury
- *Divine Chocolate Ltd's* non-profit making philosophy
- the company has opted to sell its products in the mass market
- Fairtrade sales are rising more quickly than non-fairtrade sales.

One way for candidates to achieve **good application** is to place all arguments within a response firmly in the context of the case study.

Possible lines of analysis:

There are many chains of argument that may be used. Some examples are:

- the way(s) in which the company's costs of production and/or its profits/profitability shape pricing decisions
- how pricing decisions may assist a business in achieving its objectives
- how the nature of the market and/or competitors' actions influence pricing decisions
- how the type of product and its price elasticity figure might influence prices and sales
- how marketing issues such as the product life cycle influence these decisions.

For **good analysis** on this question, candidates should develop one or more arguments (such as the above) fully showing how they may determine the company's approach to pricing.

1 (c)	<i>Has Divine Chocolate Ltd made the right decision to use Kuapa Kokoo as its major supplier of cocoa beans? Justify your decision.</i>	<i>(13 marks)</i>
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Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9–8	AO1/ AO2/ AO3
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	2–1	

Possible themes for application:

- Kuapa Kokoo comprises 45 000 small farmers based only in Ghana
- Kuapa Kokoo owns 45% of *Divine Chocolate Ltd*
- Kuapa Kokoo has grown steadily along with *Divine Chocolate Ltd*'s sales
- Kuapa Kokoo has received financial support from Body Shop International and Comic Relief generating positive publicity
- *Divine Chocolate Ltd* pays a 10% price premium for its cocoa beans from Kuapa Kokoo.

Possible lines of analysis

There are many chains of argument that may be used. Some examples are:

- whether or not the supplier is reliable and able to guarantee supplies of the right quality at the right time
- how using this supplier might affect the company's profitability and/or its achievement of other objectives
- whether or not using this supplier helps the company to compete with its rivals in the market in terms of prices and/or non-price factors
- whether the supplier will offer trade credit to the customer aiding its cash flow position.

For **good analysis** on this question, candidates should develop one or more arguments (such as the above) fully in support of the decision or opposing it.

Ideas for Evaluation might include the following:

- it depends on the company's objectives. Profits are not as important here as increasing living standards in Ghana
- *Divine Chocolate Ltd* is targeting the USA (a huge market) and is obviously confident of its suppliers
- the company's suppliers have a major say in decisions helping to avoid any supply problems and carrying out any changes more smoothly.

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 offers his/her ideas.

Level	Descriptor	Marks	AO
E3	Judgement with good justification. Answer has a logical structure throughout with effective use of technical terms.	4	AO4
E2	Judgement with reasonable 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)	<i>Has Divine Chocolate Ltd become a more competitive company over time? Justify your view.</i>	<i>(13 marks)</i>
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Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9–8	AO1/ AO2/ AO3
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	2–1	

Relevant answers may include the following:

- a competitive business is one that is able to operate successfully in its market.

Possible themes for application:

- *Divine Chocolate Ltd's* sales have risen by an annual average of 20% since 1998
- *Divine Chocolate Ltd's* sales only increased by 15.7% between 2007 and 2008 (relevant calculation here)
- Fairtrade sales have risen recently – by 12% in 2009
- *Divine Chocolate Ltd* has expanded into the USA successfully
- *Divine Chocolate Ltd* sells its products at a similar price to those of Cadbury – 81 pence and 82 pence
- The company's sales are only 0.34% of the market for chocolate in the UK (relevant calculation here)
- *Divine Chocolate Ltd's* sales were higher in 2008 than 2007 but its profit margin fell from 6.36% to 4.6% (relevant calculation here)
- Cadbury plc's profits are much higher and its 2008 profit margin was 12.04% (relevant calculation here).

One way that candidates can achieve **good application** is to complete relevant calculations such as those above.

Possible lines of analysis

There are many chains of argument that may be used. Some examples are:

- that competitiveness can be measured using profits or profitability (profit margins, for example) over time and in comparison with other businesses
- sales figures, including rates of growth of sales and market share, provide evidence of a business's competitiveness
- competitiveness can arise from having a differentiated product or from undercutting rivals' prices
- a company can gain a competitive advantage if its products become popular or fashionable.

For **good analysis** on this question, candidates should develop one or more arguments (such as the above) fully showing how they have affected the company's competitiveness **over time**.

Ideas for Evaluation might include the following:

- *Divine Chocolate Ltd's* target was growth – it is achieving this suggesting that it is competitive
- *Divine Chocolate Ltd's* rivals are copying its USP and this may reduce its competitiveness in the future
- it is competitive in terms of price and could be argued to offer greater value to customers.

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 offers his/her ideas.

Level	Descriptor	Marks	AO
E3	Judgement with good justification. Answer has a logical structure throughout with effective use of technical terms.	4	AO4
E2	Judgement with reasonable 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)	Analyse two possible reasons why Rob places great importance on supplying high-quality products.	(7 marks)
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Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	7	AO1/ AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6–5	
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	2–1	

Relevant answers might include the following:

- a quality product is one that meets customer requirements.

Possible themes for application:

- *Eggcentric Ltd* has loyal customers – 60% of sales were to existing customers in 2010
- *Eggcentric Ltd* spends little on marketing, it relies on word-of-mouth and media publicity
- the company operates in a competitive market with larger rivals
- *Eggcentric Ltd's* cash position has become steadily weaker recently
- the company charges high prices.

One way that candidates can achieve **good application** is to combine application themes such as those above.

Possible lines of analysis

There are many chains of argument that may be used. Some examples are:

- sales of products can depend upon their degree of differentiation and quality can provide this
- customer loyalty can generate substantial revenues (whilst helping to control marketing costs)
- satisfied customers can help to control costs by, for example, reducing re-working costs
- quality products can be one way in which a company can increase its competitiveness.

For **good analysis** on this question, candidates should develop one or more arguments (such as the above) fully showing why quality is important.

2 (b) Analyse **two** likely consequences of Rob's decision to use delegation as a key part of managing the workforce of Eggcentric Ltd. (7 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	7	A01/ AO2/ AO3
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6–5	
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	2–1	

Relevant answers might include the following:

- delegation is the passing of authority down the organisation structure.

Possible themes for application:

- Rob is not a 'hands-on' manager and wants to concentrate on new projects
- pay at *Eggcentric Ltd* is below that of similar businesses
- the business is growing quickly with many new staff
- *Eggcentric Ltd* has cash flow problems
- the company operates a flat organisational structure.

One way that candidates can achieve **good application** is to combine application themes such as those above.

Possible lines of analysis:

There are many chains of argument that may be used. Some examples are:

- delegation permits senior managers to spend more time on strategic tasks improving decision-making and performance
- delegation may motivate employees by, for example, enabling them to meet their esteem needs as identified by Maslow
- delegation can be more difficult to operate in certain circumstances, such as where there is a high labour turnover or many new staff recruited, as training costs may be high
- training is essential to ensure junior employees have the necessary skills to carry out more complex and demanding tasks and can lead to major cash outflows.

2 (c) *Is the rapid growth of Eggcentric Ltd the major cause of the company's cash flow problems? Justify your view.* (13 marks)

Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	9–8	AO1/ AO2/ AO3
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	2–1	AO1

Relevant answers might include the following:

- cash flow is the movement of cash into and out of a business over time.

Possible themes for application:

- the business has grown very rapidly at an average rate of over 70%
- the business is very seasonal: 73% of sales occur between May and September
- *Eggcentric Ltd* has agreed to supply B&Q with 'substantial stocks' on 60 days' trade credit
- Rob is continually looking to develop new products such as beehives and training courses
- the company's bank appears unimpressed with Rob's cash flow forecasting and has asked for further detail.

One way that candidates can achieve **good application** is to combine application themes such as those above.

Possible lines of analysis:

There are many chains of argument that may be used. Some examples are:

- overtrading is a significant cause of cash flow problems as cash outflows increase during periods of rapid growth and planning is essential to avoid this
- seasonality poses cash problems for businesses as products may have to be stockpiled in anticipation of busy trading periods meaning cash is tied up in stock (inventories)
- careful management and planning of future cash flows is important to highlight periods of predicted cash shortage and to take appropriate remedial actions
- agreeing to offer trade credit is, in effect, the granting of an interest-free loan for a period of time resulting in delayed cash inflows and lower cash balances.

For **good analysis** on this question, candidates should develop one or more arguments (such as the above) fully showing why rapid growth or other factors have caused cash flow problems.

Ideas for Evaluation might include the following:

- really the cash flow problems are all tied up with growth. Factors such as seasonality and poor planning simply add to this
- planning seems to be a key issue. Rob appears to be more interested in new ventures rather than managing his existing business.

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 offers his/her ideas.

Level	Descriptor	Marks	AO
E3	Judgement with good justification. Answer has a logical structure throughout with effective use of technical terms.	4	AO4
E2	Judgement with reasonable 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)	<i>Rob believes that an effective recruitment and selection system is the essential factor to improve the future performance of his workforce. Do you agree with him? Justify your view.</i>	<i>(13 marks)</i>
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Level	Descriptor	Marks	AO
L5	Good application AND Good analysis	8	AO1/ AO2/ AO3
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	2–1	AO1

Relevant answers might include the following:

- recruitment and selection is the process of filling an organisation’s job vacancies by appointing new staff.

Possible themes for application:

- the business has a high level of labour turnover (34%)
- the company’s workforce is growing rapidly (from 20 to 38 in 2010)
- Eggcentric Ltd* is moving into new areas such as training courses for chicken-keepers
- Rob has implemented a policy of delegation
- labour productivity fell by 5.3% in 2010
- the business’s sales are strongly seasonal
- almost all the workforce (93%) is full time
- Eggcentric’s* pay rates are only 91% of those paid at similar businesses.

One way that candidates can achieve **good application** is to combine application themes such as those above.

Possible lines of analysis:

There are many chains of argument that may be used. Some examples are:

- recruiting the right people is vital to maintain the quality of a company’s products and especially when the company is growing rapidly. Employees with the right skills can help to improve productivity and quality levels improving the company’s performance
- training is one way of improving the skills of a workforce to improve productivity levels and to enhance the profitability of the enterprise. Similarly, training would be essential for a quality assurance system
- employing temporary workers can assist a company in managing seasonal demand for its products. Additional employees can be employed at busy times allowing increased production levels and minimising waiting times for customers

- writers, such as Taylor, advocate the use of pay to improve motivation and the performance of the workforce. Higher pay rates may result in higher rates of productivity.

For **good analysis** on this question, candidates should develop one or more arguments (such as the above) fully showing why the factor under discussion may improve the future performance of the workforce.

Ideas for Evaluation might include the following:

- it is unlikely that there is one essential factor to improve the workforce's performance – instead it is likely to be a combination of factors such as training and recruitment and selection
- it depends how the performance of the workforce is to be measured: labour productivity or turnover.

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 offers his/her ideas.

Level	Descriptor	Marks	AO
E3	Judgement with good justification. Answer has a logical structure throughout with effective use of technical terms.	5–4	AO4
E2	Judgement with reasonable 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	

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