

A-LEVEL **BUSINESS STUDIES**

BUSS2 Managing a Business
Mark scheme

2130
June 2014

Version 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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.

Further copies of this Mark Scheme are available from aqa.org.uk

	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.

Weak application is 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 undeveloped arguments in response 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 (a) Explain **one** possible benefit to WW Ltd of having a ‘unique selling point of educational activities and animal conservation’.

[6 marks]

LEVEL	DESCRIPTOR	MARKS
L3	Good application	6-5
L2	Reasonable application	4-3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	2-1

Relevant answers may include the following:

- USP is part of the mix which distinguishes the product/business from rivals and is a characteristic or property not possessed by such competitors.
- company has more flexibility in setting prices.
- it can provide the basis for distinctive marketing campaigns.
- it may help to develop customer loyalty.

Possible themes for application:

- market research shows 63% of visitors believe educational facilities are the most important factor
- demand for the Zoo’s products is relatively price inelastic and especially so in the summer months
- 56% of customers visit the Zoo between June and August
- the directors of WW Ltd believe that the USP would be difficult to copy in the short-term.
- annual spending on promotion is 40% of competitors.

Good application will explain the benefit in the context of WW Ltd.

1 (b) Analyse the importance of using budgets to help manage WW Ltd's expansion project. **[8 marks]**

LEVEL	DESCRIPTOR	MARKS
L5	Good analysis AND Good application	8
L4	Good analysis or Good application AND Reasonable application or Reasonable analysis	7-6
L3	Good analysis or Application or Reasonable application and Reasonable analysis	5-4
L2	Knowledge plus Reasonable application or Reasonable analysis	3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s)	2–1

Relevant answers may include the following:

- a budget is a financial plan

Possible themes for application may include:

- the business is expanding and is borrowing £3 million to invest in its new and expanded facilities
- past budgetary data has been fairly accurate, with only relatively small variances throughout
- it is a seasonal business with 56% of customers in the summer months

Lines of analysis may include the following:

- any financial institution lending a large sum of capital will require evidence of careful financial planning before granting such a loan. It will need to be convinced the business will be able to repay it and does not represent too great a risk and sales, expenditure and profit budgets will help
- a business planning a significant expansion should use its budgets to monitor the performance of the project and to check that it is on target. Action can be taken if it is not in a timely manner
- a seasonal business may experience difficulty in managing its cash flow as outflows are likely to occur fairly steadily throughout the year whilst inflows mainly take place at certain times
- drawing up budgets will identify times at which problems might occur and plans can be made

Good analysis will focus on the importance of budgets to WW Ltd during its expansion.

1 (c)	Do you think that focussing on the product rather than on the other elements of the marketing mix is the best way for WW Ltd to attract customers to the zoo following its expansion? Justify your decision.	[13 marks]
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LEVEL	DESCRIPTOR	MARKS
L5	Good analysis AND Good application	9
L4	Good analysis or Good application AND Reasonable application or Reasonable analysis	8–7
L3	Good analysis or Application or Reasonable application and Reasonable analysis	6–5
L2	Knowledge plus Reasonable application or Reasonable analysis	4–3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	2–1

Relevant answers may include the following:

- the marketing mix is the combination of the price, place, promotion and product used to influence consumer behaviour

Possible themes for application may include:

- PED for the company's products varies according to the time of year, but is never price elastic
- market research shows that 63% of visitors say the educational element of the product is the most important factor in shaping buying decisions
- actual profits have been rising slowly and are forecast to continue to do so
- the new facilities may help to attract consumers and they may be willing to pay higher prices
- the company's expenditure on promotion is only 40% of its competitors' average spending
- the company has a distinctive product which could feature in any promotional activity.

Lines of analysis may include the following:

- product is important to attract visitors in a competitive market and is a vital factor distinguishing one business from another
- a distinctive and unique product influences price elasticity and hence pricing decisions
- increasing prices when demand is price inelastic will have a larger proportionate effect on income and makes pricing decisions important
- a strongly price competitive business faced with relatively price inelastic demand has scope to rise prices and to increase its income as a result, making pricing very important
- investment in the product in the form of new facilities may not be effective if customers are unaware of them and thus increased spending on promotion to raise awareness may be essential
- a strong USP is an important asset for any business, but its value is diminished if it is not used as fully as possible in promotional activities
- expenditure on promotion depends on the financial position of a business and if profits are increasing it is possible to finance this type of expenditure
- price, as inelastic, will not have a major impact, especially during July and August

Good analysis will address the issue of using the USP and the marketing mix to attract customers.

Ideas for evaluation might include:

- all elements are vital as part of an integrated marketing mix and it is wrong to consider any one in isolation – a marketing mix will only be effective if integrated and appropriate to the circumstances
- from the customer's point of view it does appear that product is the most important element and the company has developed its product to be distinctive to develop customer loyalty
- promotion is a complimentary technique to pricing and product development. It may have a limited impact on its own, if there is no focus on these other elements of the marketing mix.

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 justification of 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 & some use of technical terms.	3–2
E1	Assertion or judgement with limited support. Reasonable evidence of a logical structure & little use of technical terms.	1

1 (d)	Do you agree that the expansion will improve WW Ltd's financial performance? Justify your view.	[13 marks]
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LEVEL	DESCRIPTOR	MARKS
L5	Good analysis AND Good application	9
L4	Good analysis or Good application AND Reasonable application or Reasonable analysis	8–7
L3	Good analysis or Application or Reasonable application and Reasonable analysis	6–5
L2	Knowledge plus Reasonable application or Reasonable analysis	4–3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	2–1

Relevant answers may include the following:

- the financial performance may be measured in terms of profitability (measured by profit margins or return on capital)
- cash flow may also be a means of measuring whether or not financial performance improves following the decision.

Possible themes for application may include:

- revenue increases by between £4.6 million and £6.4 million each year following the investment
- profits rise from around £2.0 million to a budgeted figure of around £2.5 million in 2016
- the Zoo's budgeted profit margin falls from 10.1% in 2014 to 9.8% and 9.5% in 2015 and 2016 respectively
- the company's actual profit margin was above the 10% target in 2013 and was forecast to be so in 2014
- the forecast profit margins following the expansion are below the 10% target
- the business may encounter cash flow problems and it is a seasonal business
- the return on capital from the investment for 2015 and 2016 are 13.3% and 16.7%, so the investment meets its target of 15% by 2016.

Lines of analysis may include the following:

Reasons for agreeing

- increases in the company's revenue are a positive financial sign and may indicate rising market share and lead to higher future profits
- profit is a fundamental measure of the success of a business and the expansion will generate a small but steady increase in profits which, if sustained could strengthen its financial performance
- the return on capital figure is important in measuring how efficiently the company is using its resources and a rise in this figure would show an improvement in financial performance.

Reasons against agreeing:

- profit margins show whether the business is gaining a greater share of its sales revenue as profit – if not, costs are rising more quickly and financial performance will be weakening
- borrowing money commits a business to making regular repayments and this may be problematic if regular inflows of cash do not occur to cover the outflows.

Good analysis should address financial performance.

Ideas for evaluation might include:

- the company's budgeted profits rise significantly following the expansion along with its sales revenue which represents a significant improvement in financial performance
- it depends whether financial performance is to be measured in terms of profitability or return on capital. Profitability, as opposed to profits, actually declines after the expansion, and does not meet the 10% target, whereas the return on capital meets the 15% target after one year
- the judgement depends entirely on the accuracy of the financial forecasts. The previous budget forecasts have been fairly accurate and there was primary research into the expansion plans.

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 justification of 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 & some use of technical terms.	3–2
E1	Assertion or judgement with limited support. Reasonable evidence of a logical structure & little use of technical terms.	1

2 (a) Calculate Buckden Bicycle Ltd's capacity utilisation for 2013. **[5 marks]**

Relevant answers might include the following:

- capacity utilisation is a measure which compares a business's current output with its maximum possible output **(2 marks)**
- capacity utilisation = current output per time period x 100/maximum output per time period **(2 marks)**.

Buckden Bicycle Ltd's output in each year is calculated by multiplying labour productivity by number of staff:

	2013
Labour productivity (units per worker per year)	224
Average number of production staff	159
Annual output	35 616
Maximum output	55 500
Capacity utilisation	64.17%

Marks should be awarded for the following elements of the calculation:

- multiplies labour productivity (224) by number of staff (159) **(1 mark)** = 35 616 **(1 mark)**
- brings together 35 616 and 55 500 **(1 mark)**, but OFR applies)
- correctly calculates capacity utilisation as 64.17% **(2 marks)**, but one only if no percentage sign. There is potential for OFR here too).

Ready Reckoner

1. 64.17% Also accept 64.2%, 64.1% and 64% = 5
2. 64.17 No percentage. Also accept 64.2, 64.1 and 64 = 4
3. $\frac{OFR^*}{55,500} \times 100 = OFR\% = 4$
4. $\frac{OFR^*}{55,500} \times 100 = OFR$ No percentage = 3
5. $224 \times 159 = 35616 = 2$
6. $224 \times 159 = OFR^* = 1$ *Check for OFR carried through as in 3&4 above B below

Common Errors

- | | | |
|---|---|---|
| <p>A) $\frac{35616}{55,000} \times 100$
 = 64.7% = 4
 = 64.7 = 3</p> | <p>C) Calculation upside down
 = 155.82% or 155.82
 = 2 as 35616 is implicit</p> | <p>E) $\frac{159}{55,500} \times 100$
 = 0.286% = 0
 = 0.286 = 0</p> |
| <p>B) $\frac{OFR^*}{55,000} \times 100$
 = OFR% = 3
 = OFR = 2</p> | <p>D) $\frac{224}{55,500} \times 100$
 = 0.4036% = 2
 = 0.4036 = 1</p> | <p>F) Upside down or partial formulae no calculations = 0</p> |

2 (b) *Analyse why Buckden Bicycles Ltd may have decided to empower its workforce.*
[8 marks]

Level	Descriptor	Marks
5	Good application AND Good analysis	8
4	Good application AND Reasonable analysis <i>or</i> Good Analysis AND Reasonable application	7–6
3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5–4
2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	3
1	Knowledge	2–1

Relevant answers might include the following:

- empowerment entails redesigning employees' jobs to allow them greater control over their working lives.

Possible themes for application might include the following:

- the company's losses have increased since 2010
- the decision resulted in the redundancy of eight supervisors
- the workforce is highly skilled and very loyal
- the percentage of faulty products has increased from 1.31 in 2011 to 3.55 in 2013
- productivity levels have declined significantly – from 241 bicycles per employee per year in 2011 to 224 in 2013.

Lines of analysis might include the following:

- to reduce costs: empowerment will enable delayering to reduce labour costs as eight supervisors' pay has disappeared from the wage bill. This will further help reduce costs, although there may be short-term redundancy costs
- to improve productivity: empowering shop-floor employees by redesigning their jobs may improve motivation (by meeting ego needs or Herzberg's motivators) improving productivity
- to reduce costs: enhancements in productivity (as well as fewer employees) may have positive effects on the company's unit costs and help to improve its financial performance
- to benefit from improved workforce performance: the workforce is experienced and highly skilled and therefore is likely to be able to take on additional roles and authority without too many difficulties.

Good analysis is likely to link the effects of empowering the workforce to other aspects of the company's performance and/or operations.

2 (c) *Do you agree with the decision to reduce Buckden Bicycles Ltd's training budgets? Justify your view.*

[13 marks]

Level	Descriptor	Marks
5	Good application AND Good analysis	9
4	Good application AND Reasonable analysis <i>or</i> Good Analysis AND Reasonable application	8–7
3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4–3
1	Knowledge	2–1

Relevant answers might include the following:

- training is a process through which an employee gains job-related skills and knowledge
- training budget is the amount of money a firm plans to spend on training staff.

Possible themes for application might include the following:

- the staff are already highly skilled and experienced
- reductions in training have coincided with falling productivity, increased unit costs and quality problems
- the saving in 2013 compared with 2011 is $[190 \times \text{£}476] - [159 \times \text{£}103] = \text{£}74\,063$ although the figure has been reduced since 2009
- the training expenditure figure was significantly above the industry average and is now below it
- extra training may be required as a result of the decision to empower the company's workforce
- extra training may be needed following the change of supplier.

Lines of analysis might include the following:

- lower training budgets may mean productivity levels slip pushing up unit costs further which may lead to further loss of sales
- the substantial decline in training may reduce motivational levels with consequent negative effects on productivity and sales
- lower expenditure on training may result in employees lacking the skills necessary to carry out their jobs effectively and damage the company's overall performance
- redesigning jobs means that employees have to take on new roles and training is likely to be required if this is to be successful.

Good analysis will relate to the cost of training.

Ideas for evaluation might include the following:

- yes, this is a correct decision because the firm has to reduce costs in order to try to return to profit and satisfy its shareholders and this will make a significant contribution
- yes, this is a good decision because of the pressure to reduce costs and the firm's workforce is described as highly skilled and experienced, suggesting that training may be lower priority for this firm than others
- no, all the operational performance indicators, culminating in unit costs, show declining operational performance whilst the training budget has been cut – suggesting this has been a false economy. However, there are other explanations for these indicators falling – such as the impact of falling capacity utilisation on unit costs. Thus, this is exactly the wrong time to cut training budget.

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 justification of his/her ideas.

Level	Descriptor	Marks
3	Judgement of whether reducing training budgets was the correct decision for Buckden Bicycles Ltd. Answer has a logical structure throughout, with effective use of technical terms.	4
2	Judgement with a limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

2 (d) *Buckden Bicycles Ltd has recently experienced operational problems. To what extent is the change of supplier likely to improve its operational performance?* **[14 marks]**

Level	Descriptor	Marks
5	Good application AND Good analysis	9
4	Good application AND Reasonable analysis or Good Analysis AND Reasonable application	8–7
3	Reasonable application AND Reasonable analysis or Good application or Good analysis	6–5
2	Knowledge AND Reasonable application or Knowledge AND Reasonable analysis	4–3
1	Knowledge	2–1

Relevant answers might include the following:

- a supplier is another business that provides a firm with goods or services necessary for the running of the business
- operational performance describes a range of methods used to measure the effectiveness with which a business produces a product or provides a service.

Possible themes for application might include the following:

- lower costs should counter the previously rising unit costs
- Buckden Bicycles Ltd’s management team are concerned about the supplier’s flexibility in responding to changing demand
- Buckden Bicycles Ltd may be less important to a larger supplier than their previous small one, resulting in a lower level of customer service.
- Polish supplier operates a 72 hour lead time.
- The percentage of faulty products supplied to customers has risen from 1.31 in 2011 to 3.55 in 2013.

Lines of analysis might include the following:

- lower costs will help to reduce unit costs, thus boosting profitability, helping to return the firm to profit
- a supplier with QA standards could help to maintain quality levels and to reassure Buckden Bicycles Ltd's customers
- a larger supplier may be better suited to coping with rising demand if the firm succeeds in boosting capacity utilisation
- the supplier's reliability might affect Buckden Bicycle Ltd's ability to supply retailers on time and therefore the standard of customer service it provides
- labour productivity will be affected by issues such as training which are not related to the change of supplier
- changing supplier will not necessarily affect the company's capacity and therefore its capacity utilisation, an important part of operational performance, will be unaffected.

Good analysis must explicitly link the new supplier to Buckden Bicycles Ltd's operational performance such as productivity, unit costs or quality.

Ideas for evaluation might include the following:

- if unit cost is the most fundamental performance indicator, the change in supplier will be positive, with a cheaper price leading directly to a fall in unit cost. This will help to improve financial performance which is a vital issue
- this may weaken the company's operational performance as the new, larger supplier may be less responsive to BB Ltd's needs impairing its ability to maintain customer service levels
- it is difficult to make a definite decision as it will depend whether the overall level of customer service provided rises or falls and this is central to the company's reputation – cheaper supplies could be countered by delays in production caused by the change in supplier.

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 justification of 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 & some use of technical terms.	3-2
E1	Assertion or judgement with limited support. Reasonable evidence of a logical structure & little use of technical terms.	1