

GCE AS
Applied Business
Summer 2009

Mark Schemes

Issued: October 2009

MARK SCHEMES (2009)

Foreword

Introduction

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

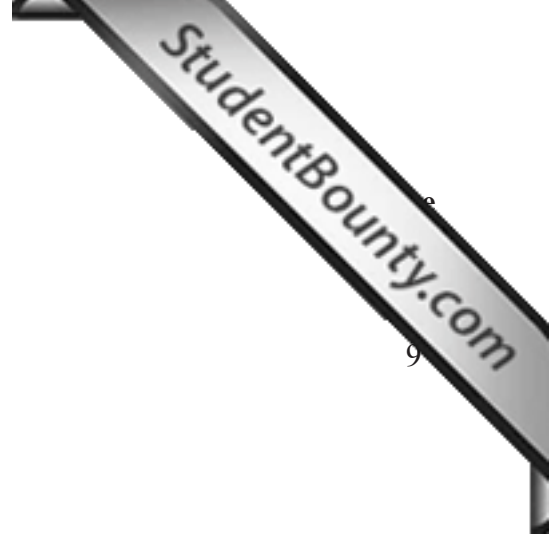
It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

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**ADVANCED
General Certificate of Education
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GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

FRIDAY 12 JUNE, MORNING

MARK SCHEME

1 (a) Ann's Trading, Profit and Loss Account for the year ended 31st December 2008

	£	£	£	
Sales			40 000	1
Opening Stock		1 000		
Add Purchases		15 000		
Less Closing Stock		<u>(1000)</u>		
Cost of Sales			<u>(15 000)</u>	2
Gross Profit			25 000	3
Marketing expenses	2 000			
Add Amount Due	<u>300</u>	2 300		
Administration expenses	3 000			
Less prepayment	<u>(1 000)</u>	2 000		
Distribution Costs		4 000		
Loan interest		1 000		
Depreciation – vehicles		100		
Depreciation – Equipment		<u>2 000</u>	<u>(11 400)</u>	4
Net Profit			<u>13 600</u>	5

Ann's Balance Sheet as at 31st December 2008

	£	£	£	
Fixed Assets				
Premises	20 000	0	20 000	
Vehicles	1 000	(100)	900	
Equipment	20 000	<u>(2 000)</u>	18 000	
	<u>41 000</u>	<u>(2 100)</u>	38 900	6
Current Assets				
Closing Stock	1 000			
Amounts prepaid	1 000			
Debtors	5 000			
Bank	<u>5 000</u>	12 000		7
Current Liabilities				
Creditors	2 000			
Amounts due and unpaid	<u>300</u>	<u>2 300</u>		8
Working Capital			9 700	9
Long Term Liabilities				
Loans			<u>(15 000)</u>	10
Net assets			<u>33 600</u>	
Financed by:				
Opening Capital			20 000	11
Add net profit			<u>13 600</u>	12
Capital Employed			<u>33 600</u>	13

[1] for each figure noted below, except as indicated:

L2 cost of sales (1 × [2])

L3 gross profit

L4 total expenses (£2300; £2000; £100; £2000; £11 400) (1 × [5])

L5 net profit

L6 total net fixed assets (1 × [2])

L7 total current assets (1 × [2])

L8 total current liabilities (1 × [2])

L9 working capital

L11 opening capital

L13 capital employed.

Note: OFR to be applied [18]

(Candidates may present an alternative layout for the balance sheet where loans are added to capital. Correct balance sheet totals will thus be £48,600 (net assets + capital employed))

- (b) Evaluate the extent of usefulness of financial statement information in context of Ann's business.

Benefits:

- Enables owner to measure/assess profitability;
- Enables owner to measure/assess liquidity;
- Enables owner to establish a value of business and hence a sale price.

Drawbacks:

- uses historical information which tends to go out of date quickly;
- figures may be manipulated to present a more positive outcome;
- does not provide qualitative information about the business.

Level 1 ([1]–[4])

Some knowledge and understanding of the usefulness of financial statement information. One benefit or one drawback is properly explained. There is likely to be little/no application to stimulus. Some evaluation.

Level 2 ([5]–[6])

Adequate knowledge and understanding of the usefulness of financial statement information, with some application to stimulus. One benefit and one drawback is briefly explained. Good standard of evaluation.

Level 3 ([7]–[8])

Good knowledge and understanding of the usefulness of financial statement information. One benefit and one drawback is properly explained in detail, and applied within the context of the stimulus. Excellent standard of evaluation.

[8]

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2 (a) Calculate, for “H₂O”:

(i) Variable costs per customer: $(£2000/200) = 10$ [1]

(ii) The number of customers required each week in order to breakeven;
 Breakeven Point = Fixed costs/contribution per customer
 Contribution Per Customer (CPC) = entrance fee (Sales price) – variable cost per customer:
 $CPC = £30 - £10$
 $CPC = £20$
 Fixed costs = £3000/week
 Breakeven (no. of customers) = $3000/20 = 150$ customers.
 [1] for correct calculation of CPC; [1] for correct identification of fixed costs; [1] for correct calculation of Breakeven point in terms of customer numbers; (alternative calculations accepted, if mathematically correct); OFR rule applies.
 ([1] × 2) [2]

(iii) The weekly level of profit which would accrue, based on an average of 200 customers using the facilities each week (option 1):
 Weekly profit = total sales – sales at breakeven point, × cpc
 Weekly profit = $(200 - 150) \times £20 = £1,000$.
 [1] for correct calculation of customer sales above breakeven point; [1] for correct identification of Contribution per customer; [1] for correct calculation of total weekly profit; (alternative calculations accepted, if mathematically correct); OFR applies.
 ([1] × 3) [3]

(b) Re-calculate the breakeven point (in terms of the number of customers per week) for ‘H₂O’, if the current entrance fee is lowered to £25.00 per customer.
 Breakeven Point = Fixed costs/contribution per customer
 Contribution Per Customer (CPC) = entrance fee (Sales price) variable cost per customer.
 $CPC = £25 - (£2000/200)$
 $CPC = £25 - £10$
 $CPC = £15$
 Fixed costs = £3000/week
 Breakeven (no. of customers) = $3000/15 = 200$ customers.
 [1] for correct calculation of CPC; [1] for correct recalculation of breakeven point in terms of customer numbers; (alternative calculations accepted, if mathematically correct); OFR rule applies.
 ([1] × 2) [2]

(c) Recalculate the weekly anticipated net profit/(loss) for “H₂O”, if the entrance fee was lowered to £25.00 per customer and an average of 200 customers continued to use the facilities per week (option 2A):
 Weekly profit = total sales – sales at revised breakeven point, × cpc
 Weekly profit = $(200 - 200) \times £15 = £0$.
 [1] for correct calculation of customer sales above breakeven point;
 [1] for correct re-calculation of total weekly profit; OFR applies.
 (alternative calculations accepted, if mathematically correct);
 ([1] × 2) [2]

- (d) Recalculate the weekly anticipated net profit/(loss) for “H₂O”, if the entrance fee was lowered to £25.00 per customer, and that the number of customers using the facilities increased to maximum capacity allowable under health and safety regulations (option 2B):

Revised Weekly profit = total sales – sales at revised
breakeven point × cpc

Weekly profit = (250 – 200) × £15 = £750.

[1] for correct calculation of customer sales above breakeven point;

[1] for correct recalculation of maximum total weekly profit; (alternative calculations accepted, if mathematically correct); OFR applies.

([1] × 2) [2]

- (e) Using the relevant information, select and justify the most profitable option open to “H₂O”:

The most profitable option appears to be to do nothing – i.e. do not increase entrance fees:

- Do nothing (option 1) yields £1,000 profit per year;
- Decreasing price yields either £0 profit (if only 200 customers use facilities – option 2A); or £750 profit (if 250 customers use facilities as per maximum allowable – option 2B).
- Comparison indicates that option 1 yields more profit, thus do not change entrance fees.

[2] for correct identification of correct option (option 1); [2] for knowledge/understanding of correct option; [2] for application; OFR applies.

([2] × 3) [6]

- (f) Evaluate the usefulness of breakeven analysis to a business such as “H₂O”:

Advantages:

- Easy, visual method of analysing business financial performance;
- Indicates the sales levels (customers and/or sales revenues) required to achieve breakeven position;
- Shows by calculation/graph profits/losses at various levels of output (Customers);
- Can be useful to calculate output needed (customers) to achieve target profits;
- Sensitivity analysis can be conducted.

Disadvantages:

- May be complicated in practice (or non-linear);
- Assumes a linear relationship between key variables;
- Ignores economies of scale;
- Data may be inaccurate rendering analysis of limited value;
- May be difficult to apportion overheads between fixed/variable components;
- Assumes all output (customers) is achieved;
- For accuracy, such analysis will need to be applied on a product line basis i.e. for each facility provided by the health club, e.g. dry sauna, jacuzzi, steam room, etc. which may be unrealistic.

Level 1 ([1]–[4])

Some knowledge and understanding of the usefulness of breakeven analysis. One advantage/disadvantage is properly explained. There is likely to be little/no application to stimulus. Quality of written communication is limited.

Level 2 ([5]–[8])

Adequate knowledge and understanding of the usefulness of breakeven analysis, with some application to stimulus. Two advantages/disadvantages are properly explained. Quality of written communication is satisfactory.

Level 3 ([9]–[12])

Good knowledge and understanding of the usefulness of break even analysis. Three or more advantages/disadvantages (balanced arguments required, to include a minimum of one advantage and disadvantage) are properly applied within the context of the stimulus. Quality of written communication is of a high standard. [12]

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- 3 (a) Complete Table 1 to show the production overhead analysis and apportionment of overheads for the Saudi Arabian contract.

Table 1

Production Overhead Analysis and Apportionment Table							
Overhead	Basis of Apportionment	Total Cost (£)	Production Dept. (£)	Assembly Dept. (£)	Painting Dept. (£)	Stores Dept. (£)	
Indirect material	Direct	13000	8000	3000	1000	1000	L1
Indirect wages	Direct	12000	6000	3000	2000	1000	L2
Health/Safety Costs	Direct	16000	6000	5000	4000	1000	L3
Rates	Area	13000	6000	4000	2000	1000	L4
Depreciation	Plant cost	19000	10000	3000	4000	2000	L5
Energy costs	Power use	14000	7000	5000	1000	1000	L6
Water Charges	Area	16000	5000	4000	5000	2000	L7
Canteen expenses	No. of staff	12000	6000	4000	1000	1000	L8
Total		115000	54000	31000	20000	10000	L9
Stores	Store issues (6:2:2)	–	6000	2000	2000	–10000	L10
Total overheads		115000	60000	330000	22000		L11

Marking: [1] for each item correctly stated/calculated (noted in bold):

1. calculation of total overheads at £115,000 (L9)
2. calculation of total stores overheads at £10,000 (L9)
3. production dept apportionment of stores overheads (£6,000) (L10);
4. assembly dept. apportionment of stores overheads (£2,000)(L10);
5. painting dept. apportionment of stores overheads (£2,000)(L10);
6. stores dept. total overheads to be apportioned (–£10,000)(L10);
7. calculation of total overheads after re-allocation at £115,000 (L11)
8. total production dept. overheads correctly calculated at £60,000 (L11);
9. total assembly dept. overheads correctly calculated at £33,000 (L11);
10. total painting dept. overheads correctly calculated at £22,000 (L11).

Own figure rule to be applied

[10]

- (b) Complete Table 2 to show the appropriate rates of overhead recovery for (i) the Production Department; (ii) the Assembly Department; and (iii) the Painting Department. All calculations must be shown in the box provided. [6]

Table 2: Overhead Absorption Rates

	Production Dept.	Assembly Dept.	Painting Dept.
Machine Hours	30000	11000	11000
Total overheads (£)	60000	33000	22000
Overhead Rate per Machine Hour (£)	2.00	3.00	2.00

[1] for each item correctly stated/calculated (noted in bold):

1. production dept direct machine hours (30,000)(L1);
2. assembly dept. direct machine hours (11,000)(L1);
3. painting dept. direct machine hours (11,000)(L1);
4. overhead absorption rate for production dept., correctly calculated at £2 (L2), based on total production dept., overheads correctly calculated at £60,000 (L11, pt (a));
5. overhead absorption rate for assembly dept., correctly calculated at £3.00 (L2), based on total assembly dept., overheads correctly calculated at £33,000 (L11, pt (a));
6. overhead absorption rate for painting dept., correctly calculated at £2.00 (L2), based on total painting dept., overheads correctly calculated at £22,000 (L11, pt (a));

Own figure rule to be applied [6]

- (c) Explain what is meant by the term “Overhead Absorption Rate”:

An overhead absorption rate refers to a system whereby overheads for a service department are “recovered” or “absorbed” on the basis of activities in other departments engaged in direct production activities. The key factor will be the resource used the most in such departments, which is normally either labour or machinery. In this case, the stimulus indicates that machinery use is the dominant “direct” activity, hence overheads are recovered for “indirect” costs based on machine hours used.

[1] for identification of overhead absorption rate concept; [1] for application to stimulus;

([1] × 2) [2]

- (d) Explain three ways in which the European Union (EU) funding can be used to develop the economy in Northern Ireland.

- C.A.P funding/farming businesses/diversification/agri–businesses
- European Bank for Reconstruction and Development (EBRD)/E.I.F/ European Investment Bank: loans/grants to finance business activities, e.g. start-ups; finance for trade missions, etc.
- Develop tourism
- Encourage innovation in business/community organisations/government agencies, who spend EU/public money;
- European level trade missions/fairs supported, could be organised via member states

- Community Initiatives.

The aim of the Northern Ireland Community Support Framework (CSF) is to achieve a transition to a more peaceful, stable, prosperous, fair and outward looking society, sustained by a better physical environment.

The CSF is divided into two Operational Programmes:

Northern Ireland Programme for Building Sustainable Prosperity 2000–2006 – 890 million euro (£575m);

EU Programme for Peace and Reconciliation in Northern Ireland and the Border Region Region of Ireland 2000–2004 – 425 million euro (£274m)

- Examples of EU funded projects in Northern Ireland:

- Upgrade of Great Victoria Street Railway Station, Belfast;
- Belfast–Dublin Rail Upgrade; the overall cost of the project was £6.8 million, of which £5.1 million was provided in EU funding; this was a joint venture between Northern Ireland Railways and Irish Rail and was a Priority Route under the Trans European Network system. The overall project cost over £100 million of which the European Union provided £75 million; These are examples of infrastructure developments in the economy, representing revenues for businesses/contractors.
- Tí Chulainn is a community-run project in County Armagh which aims to foster the region’s rich cultural environment to encourage tourism in the area and to further cultural tourism in Northern Ireland;
- Research and Development: EU funding is provided for business and other organisations to undertake research/development activities aimed at improving the lives of European citizens.
- Other reasonable suggestions accepted.
- Infrastructure Finance – funding of key transport projects indirectly leads to increased sales revenues for businesses involved in contracts work, hence a source of funds/revenues.
- EU structural funding available.

Level 1 ([1]–[2])

Some knowledge and understanding of the role of the EU and/or assistance provided. One issue properly explained. There is likely to be little/no application to a locally based case/project or to stimulus. Quality of written communication is limited.

Level 2 ([3]–[4])

Adequate knowledge and understanding of the role of the EU and/or assistance provided. One/two issues are properly explained. There is likely to be some application to a locally based case/project or to stimulus. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

Good knowledge and understanding of the role of the EU and/or assistance provided. At least three issues are properly explained within the context of the case. There is detailed application to a locally based case/project or to stimulus. The issues are thoroughly explained. Quality of written communication is of a high standard.

[6]

24

Total

80



Rewarding Learning

**ADVANCED
General Certificate of Education
Summer 2009**

GCE Applied Business

Assessment Unit A2 12

assessing

The Global Market

[A6B61]

WEDNESDAY 10 JUNE, MORNING

**MARK
SCHEME**

- 1
- Market for NI firms: Gallaher plc reported cigarette sales volumes in international market totalling 163.6 bn;
 - Growth: Gallaher Group plc employs over 10 000 employees – increased sales revenues (+2.3%) means more jobs; pressure to maintain profits/dividends;
 - Saturated Home Market: Gallaher Group plc: the UK market is saturated, since sales volume is reported at 18.8bn (a decrease relative to 2006 figures – 11.5% market share), whilst it is a strong brand in Northern Ireland & UK – global trade has helped Gallaher Group plc to establish a larger market share overseas.
 - Diversification: Gallaher Group plc has acquired various companies as noted including Dolland & Aitchison; Marshall Group; Vendpac in UK and other abroad (Ligett-Ducat, Austria Tabak, Cita Tabacos de Canarias).
 - Economies of Scale: Gallaher Group plc concentrates cigarette production at Lisnafillan plant (Ballymena) servicing a global market for cigarettes, enabling it to take advantage of economies of scale in production for global market.
- ([1] for identification, [1] for explanation/application to the casestudy) [4 × (2)][8]

8

- 2
- Employment: currently employs over 10 000 staff globally.
 - Sales revenues: sales revenues were £8401m, an increase of 2.3% relative to the previous financial year.
 - Profitability: the company reported an average profit margin of 7% in the financial year 2006.
 - Sales volumes: the company also reported that cigarette volumes in international markets totalled 163.6bn, an increase of 6% (upon the previous financial year), whilst in the UK, cigarette volume was reported at 18.8bn, a decrease of 3.4% upon the previous year.
 - Market Share: Established brand names for the company's tobacco products have gained a global reputation – UK market share approx. 11.5%, and declining (as per point above), thus global market accounts for remaining market share (likely to be increasing); Competitive advantage gained by Gallaher Group plc;
 - Takeovers: may have contributed to performance in this respect, e.g. access to USA market; access to Russian Market;
 - Enhanced Channels of Distribution: yields superior performance for Gallaher Group plc;
 - Economies of scale: (in terms of production – leading to reduced costs for Gallaher Group plc;
- ([1] for explanation, [1] for application to the case study); [4 × (2)][8]

8

- 3
- Customs/Excise: Tobacco duty is levied on the Gallaher Group plc's products in the UK it is the highest in the western world;
 - Health/Safety: legislation in UK and other countries is banning smoking in workplaces to ensure the health/safety of staff therein; some European countries have followed suit – this will impact the Gallaher Group plc;
 - Tax: most governments impose taxes on companies operating overseas, although some national governments may attract overseas investment by offering tax relief – this will impact the Gallaher Group plc;
 - Quotas: Gallaher Group plc may face quotas on the quantities of tobacco products exported from Northern Ireland to countries in the rest of the world;
 - Administrative restrictions: foreign countries may impose restrictions due to the increasing threat of litigation from customers – this may impact the Gallaher Group plc;
 - Voluntary agreements: Gallaher Group plc may be limited in trading activities since UK may enter into voluntary agreements regarding the supply/production of their tobacco products to certain groups within a country's population, e.g. ban on sales of tobacco products to children – which would have been negotiated on behalf of a foreign government: Local content Requirement; Advertising restriction;
 - Embargo: total ban on imported tobacco products, impacts Gallaher group plc by reducing sales revenues + profits;
 - Health + Safety/environmental: Gallaher Group plc may have to reduce such risks related to their global trading activities;
 - Subsidies: may be given to competitors in foreign markets to enable them to compete better, reducing Gallaher Group plc sales revenues/profitability Gallaher Group plc. Subsidiaries may benefit from subsidies in foreign markets this increasing revenues/profits too;
 - Tariffs: additional taxes levied on imported goods by a foreign government; makes Gallaher Group plc products more expensive, reducing market share;
 - Exchange Controls: Limits on currencies exchanged by Gallaher Group plc between countries/subsidiaries;

Level 1 ([1]–[3]) Some knowledge and understanding of regulations/barriers to trade facing the Gallaher Group plc, There is some analysis and application in the context of the Gallaher Group plc. One such regulation/barrier to trade is analysed. Analysis, if present is likely to be limited. Quality of written communication is limited.

Level 2 ([4]–[9])

Adequate knowledge and understanding of regulations/barriers to trade facing the Gallaher Group plc. There is some analysis and application in the context of the Gallaher Group plc. Two to three such regulations/barriers to trade are analysed. A satisfactory standard of analysis present. Quality of written communication is satisfactory.

Level 3 ([10]–[12])

Good knowledge and understanding of regulations/barriers to trade facing the Gallaher Group plc. There is good analysis and application in the context of the Gallaher Group plc. Four such regulations/barriers to trade are analysed. There is a high standard of analysis present. Quality of written communication is of a high standard.

[12]

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- 4 (i) World Trade Organisation (WTO)
- The aim of the WTO is to implement more effective policing and enforcement of GATT rules thus encouraging free trade between countries for tobacco products such as that produced by Gallaher Group plc;
 - It is the responsibility of the WTO to arbitrate trade disputes and monitor the trade policies of member states – perhaps in the tobacco processing industry in which Gallaher Group plc operates;
 - The WTO has a role of brokering future agreements to enable greater access to trade in services, covering regulations governing foreign direct investment – Gallaher Group plc has invested in companies and production facilities on a global scale, with takeovers in UK, Spain, Austria, USA and itself by Japan Tobacco Inc.
 - With respect to workers' rights, the WTO will address the issue that free trade encourages firms to relocate their production activities to countries with low labour rates and where workers' rights are violated on a frequent basis – e.g. Russia – however the stimulus material does not provide direct evidence of this;
 - With respect to foreign direct investment, the WTO will address issues such as limits on the amount of investments allowed by firms – however, the stimulus material does not suggest that this has been an issue for the Gallaher Group plc;
 - The greater consensus of opinion is that the best interests of business are served by a free trade stance, but not a laissez-faire stance. The WTO appears to be the most appropriate body to supervise global trade, in which the Gallaher Group plc have been able to take advantage of, through reported increases in sales revenues, profitability and employment numbers of staff.

Level ([1]–[4])

Some knowledge and understanding of one way in which the WTO could influence global trade is evaluated and there is some application in the context of the Gallaher Group plc. One way is properly evaluated (i.e. one positive or one negative influence of WTO). There is little attempt to analyse or evaluate the influence of the WTO. Quality of written communication is limited.

Level 2 ([5]–[6])

Adequate knowledge and understanding of two ways in which the WTO could influence global trade are evaluated and there is some application in the context of the Gallaher Group plc. Two ways are briefly evaluated (to include one positive aspect and one negative aspect of the influence of the WTO). There is some attempt to analyse or evaluate the various influences of the WTO. Quality of written communication is satisfactory.

Level 3 ([7]–[8])

Good knowledge and understanding of two ways in which the WTO could influence global trade are evaluated and there is detailed application in the context of the Gallaher Group plc. Two ways are properly evaluated (to include one positive aspect and one negative aspect of the influence of the WTO). There is a high standard of analysis or evaluation. Quality of written communication is of a high standard. [8]

(ii) North American Free Trade Association (NAFTA)

The North American Free Trade Agreement (NAFTA) is a trade agreement between the United States, Canada and Mexico that liberalises restrictions on trade between the three countries. The objective of NAFTA is to promote an environment of free competition, increased market access, and improved investment opportunities for businesses. Canada is America's largest trading partner. The United States does more business with Canada than with all the countries of the European Union combined. Canada is America's largest trading partner.

- NAFTA helps to generate economic growth by encouraging increased trade through widening trade horizons. Gallaher Group plc will benefit reaching a larger market, arising from 1968 takeover by American Tobacco Inc.
- NAFTA is designed to promote the freer regional movement of goods, services and capital, and therefore accelerates competitive conditions in Canada, the United States and Mexico. Gallaher Group plc may benefit through increased investment from increasing sales revenues to such markets from the US.
- NAFTA strengthens rules and procedures governing trade and investment making it easier for Gallaher Group plc to attract investment. NAFTA provides increased protection for investors as well as for intellectual property rights. The tobacco processing industry involves substantial Intellectual Property Rights issues. Gallaher Group plc will be helped to trade globally by securing market leadership positions in tobacco processing, attracting further global sales.
- NAFTA helps Gallaher Group plc to produce competitive goods, therefore achieving higher profit margins (currently 7%). NAFTA assists Gallaher Group plc to enter into the USA market place by elimination of tariffs, achieving lower prices and increased profit margins enhancing their competitiveness.
- NAFTA helps Gallaher Group plc by providing opportunities for stability and growth through increased sales from wider markets.

Level 1 ([1]–[4])

Some knowledge and understanding of one way in which the NAFTA could influence global trade is evaluated and there is some application in the context of the Gallaher Group plc. One way is properly evaluated (i.e. one positive or one negative influence of NAFTA). There is little attempt to analyse or evaluate the influence of the NAFTA. Quality of written communication is limited.

Level 2 ([5]–[6])

Adequate knowledge and understanding of two ways in which the NAFTA could influence global trade are evaluated and there is some application in the context of the Gallaher Group plc. Two ways are briefly evaluated (to include one positive aspect and one negative aspect of the influence of the NAFTA). There is some attempt to analyse or evaluate the various influences of the NAFTA. Quality of written communication is satisfactory.

Level 3 ([7]–[8])

Good knowledge and understanding of two ways in which the NAFTA could influence global trade are evaluated and there is detailed application in the context of the Gallaher Group plc. Two ways are properly evaluated (to include one positive aspect and one negative aspect of the influence of the NAFTA). There is a high standard of analysis or evaluation.

Quality of written communication is of a high standard.

[8]

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5 Strengths:

- Price: Gallaher Group plc provides tobacco products at competitive prices;
- Quality: Gallaher Group plc tobacco products/brands are known worldwide, e.g. Silk Cut, Benson & Hedges, Mayfair, Old Holborn, Hamlet.
- Choice: Customers have a wide variety of tobacco products to choose from, including cigarettes, cigars, hand-rolling products and pipe tobacco.
- Availability: Gallaher Group plc operates on a global scale, thus products are available in different countries, including UK, Europe, America, Russia. International sales volumes are up 6%; whilst sales revenues reported were £8401m (2006):
- Competitive Advantage: Lisnafillan plant (Ballymena) concentrates on cigarette production for global market, thus achieving economies of scale in terms of production costs; supported by global workforce of 10,000;

Weaknesses:

- Price: Gallaher Group plc provides tobacco products at competitive prices, but not necessarily the cheapest – revenues only increased 3.4%;
- Profitability: Gallaher Group plc has reported a profit margin averaging 7%, which may be low – indicating high competition against cheaper products, although it must have been attractive to the new owners Japan Tobacco Inc., hence takeover; transport costs higher;
- Restricted Advertising: legal restrictions on marketing/product promotion strategies in UK impacting Gallaher Group plc sales volume (decrease of 3.4% reported, 2006) – UK Market share is 11.5% and possibly declining.

Opportunities:

- Market share: strategy of takeovers on a global scale has maintained market share and increased sales revenues – new global markets will emerge;
- Gallaher Group plc continues to diversify – it appears to have ownership of various businesses including Dolland & Aitchison, Vendpac, Marshall Group;
- Geographical presence: Gallaher Group plc operates on a global scale, thus products are available in different markets, including UK, Europe (Spain), America, Russia.
- New Corporate Owners: the acquisition of Gallaher Group plc by Japan Tobacco Inc. will likely guarantee entry to Japan/Far Eastern market for Gallaher Group plc tobacco products.

Threats:

- Increased global competition;
- Legislation – under 18 law: Gallaher Group plc is unable to legally provide tobacco products to customers under this age;
- Legislation – ban on sports sponsorship.
- Litigation – customers have launched claims for negligence based on use of Gallaher Group plc tobacco products;
- Legislation – health/safety laws prevent smoking in public places, clubs and pubs, which will potentially reduce sales;
- Tobacco duty – UK government has imposed high levels of duty on Gallaher Group plc tobacco products, thus making it an expensive product to purchase by customers;
- Lobby groups: emergence of health-conscious lobby has impacted sales as more customers give up smoking, as evidenced by a decline in UK sales (to 18.8bn (volumes)/11.5% market share in 2006).

([1] for identification of each point per each element of the SWOT analysis, [1] for analysis/application to the case study); any 2 points are required for each element

(i.e. strength, weakness, opportunity, threat) of the SWOT analysis [4 × (4)][16]

- 6
- **Sea Transport:**
 - **Cost:**
 - **Advantage:**
 - sea transport is generally considered cheaper compared to air transport which lower products costs passed on to consumers of Gallaher Group plc products.
 - **Disadvantage:**
 - Gallaher Group plc pay fares to ferry operators per container/truck transported. Costs of transport from Lisnafillan (Ballymena) plant may be a consideration too, adding to product costs, which are passed on to Gallaher Group plc customers.
 - **Speed:**
 - **Advantage:**
 - Gallaher Group may feel that speed is not an issue regarding distribution of product range to global market, hence sea transport may suit business objectives.
 - **Disadvantage:** sea transport generally slower and provides a limited choice of destinations. Port congestion can sometimes cause delays. Gallaher Group plc face a limited choice of seaports in NI, providing RO-RO facilities (Larne & Belfast). The Gallaher Group plc may consider using Dublin as a seaport facilitating distribution of products to global markets;
 - **Reliability:**
 - **Advantage:**
 - Sometimes transporting by sea offers a choice of ships and ports, but depends on availability;
 - **Disadvantage:**
 - Advance booking in advance is often required.
 - **Handling characteristics:**
 - **Advantage:**
 - Gallaher Group plc will aim to package/transport the products in a manner compliant with ferry operators' regulations, in order to ensure safe passage of goods between two destinations.
 - **Disadvantage:**
 - Paperwork: Gallaher Group plc are required to ensure completion of two documents are necessary in respect of shipping, including (a) the Standard Shipping Note (advises shipping line of what happens to goods in port); and (b) The Bill of Lading (acts as shipping line's receipt of goods, and as contract of carriage, but not proof of ownership).
 - **Air Transport:**
 - **Cost**
 - **Advantage:**
 - Avoidance of some storage costs, due to immediate delivery to Gallaher Group customers.
 - Less stockholding and speedier settlement of invoices, due to quicker delivery of goods by Gallaher Group plc.
 - **Disadvantage:**
 - Gallaher Group plc pay fares to airline operators per container/consignment transported. Costs of transport from Lisnafillan (Ballymena) plant may be a consideration too, adding to product costs, which are passed on to Gallaher Group plc customers.
 - Air transport is generally considered more expensive compared to sea transport which increases eventual products costs passed on to consumers of Gallaher Group plc products.

- **Speed:**
- **Advantage:**
- Air transport/journeys tend to be shorter (timewise) than ferry, which may facilitate faster distribution of Gallaher Group plc products to market.
- **Disadvantage:**
- Air transport is increasingly subject to delays at airports, weather conditions, and other operational factors which may present distribution problems to Gallaher Group plc,
- **Reliability:**
- **Advantage:**
- Convenience and ease of administration. Cargo Agent may assist Gallaher Group plc with arrangements similar to a freight forwarder.
- **Disadvantage:**
- Air transport is increasingly subject to delays at airports, which can cause marketing problems to Gallaher Group plc,
- **Handling Characteristics:**
- **Advantage:**
- Air transport is suitable for smaller units of cargo which it may be suggested is useful for speedy delivery/handling by Gallaher Group plc.
- Can meet customer requirements for a 'just-in-time' stock management system – Gallaher Group plc may operate such a system themselves.
- **Disadvantage:**
- Air transport is unsuitable for heavy and non-perishable cargoes, which may be an issue for Gallaher Group plc in distributing goods to customers.

Level 1 ([1]–[8])

Some knowledge and understanding of the advantages and disadvantages of using air and sea transport is demonstrated with reference to speed, cost, reliability and handling characteristics. There is little application in the context of Gallaher Group plc. Up to two advantages/disadvantages for each method of transport are properly discussed (or up to four advantages/disadvantages limited to one method of transport). An unbalanced argument is acceptable. Application of this knowledge to Gallaher Group plc, if present, is very limited. Quality of written communication is limited.

Level 2 ([9]–[16])

Adequate knowledge and understanding of the advantages and disadvantages of using air and sea transport is demonstrated with reference to speed, cost, reliability and handling characteristics. There is satisfactory application in the context of Gallaher Group plc. Three to four advantages/disadvantages for each method of transport are properly discussed (or up to four advantages/disadvantages limited to one method of transport and some discussion of another method of transport). An unbalanced argument is acceptable. There is some application of this knowledge to Gallaher Group plc. Quality of written communication is satisfactory.

Level 3 ([17]–[20])

Good knowledge and understanding of the advantages and disadvantages of using air and sea transport is demonstrated with reference to speed, cost, reliability and handling characteristics. There is good application in the context of Gallaher Group plc. Five advantages/disadvantages for each method of transport are properly discussed. A balanced argument is required. There is good application of knowledge to Gallaher Group plc.

Up to two marks are awarded to candidates who provide ‘advice/recommendation’ to Gallaher Group plc regarding the most suitable form of transport, consistent with the weight of the evidence presented.

Quality of written communication is of a high standard.

[20]

20

Total

80