



General Certificate of Education

Business Studies 5131

BUS1 Marketing and Accounting and Finance

Mark Scheme

2005 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

General Marking Guidance

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary Level candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through a full A Level course.

Positive Marking

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

Mark Range

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

The use of Levels of Response

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

Fundamental to a Levels of Response approach is that there maybe more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

1. Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, e.g. an advantage of factoring.
2. Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
3. Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
4. Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

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|---------|--|----------------|
| LEVEL 2 | Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas | 2 marks |
| LEVEL 1 | Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas. | 1 mark |

Total 2 marks

1

Total for this question: 25 marks

| | | |
|------------|---|------------------|
| (a) | What is meant by the term “primary market research” (line 1)? | <i>(2 marks)</i> |
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|----------------|---|
| | Content 2 marks |
| Level 2 | 2 marks Candidate demonstrates good understanding of term. Award one mark for general notion of market research |
| Level 1 | 1 mark Candidate demonstrates some understanding of term |

Primary research is the gathering of first hand data that is tailor made to a firm’s own products.
Second mark for such as, ‘own’ products, first hand or relevant example.

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| (b) | (i) Calculate the number of customer visits needed for a typical WHSmith store to break-even. | <i>(3 marks)</i> |
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| | Content 1 mark | Application 2 marks |
| Level 2 | | 2 marks Candidate calculate break-even correctly |
| Level 1 | 1 mark Candidate demonstrates some understanding of calculating break-even | 1 mark Candidate makes limited attempt to calculate break-even |

$$\text{Break-even} = \frac{\text{FC}}{\text{Cont/unit}} = \frac{\pounds 180\,000}{\pounds 1.20} = 150\,000 \text{ customers visits per year}$$

- (ii) Calculate the increase in annual profits made by a typical store if the average spend per customer rises to £8.00. (Assume annual fixed costs and average contribution made on sales, do not change.) (5 marks)

| | Content 2 marks | Application 3 marks |
|----------------|--|---|
| Level 2 | 2 marks Candidate demonstrates good understanding of profit calculations | 3 marks Candidate calculates change in profit successfully |
| Level 1 | 1 mark Candidate demonstrates understanding of profit calculations | 2-1 marks Candidate makes limited attempt to calculate profit figures |

Current annual profit = £1.20 x 50 000 customer visits = £60 000

OR

Total revenue less total cost = £1.2 million - £180 000 – (£4.8 x 200 000) = £60 000

OR

200 000 x £1.20 = £240 000 less £180 000 = £60 000

New annual profit = £1.6 million - £180 000 – (£6.40 x 200 000) = £140 000

Therefore, the change in profit = £80 000

- (c) The net cash flow of WHSmith was minus £31 million for the year ending 31/8/02.
 Analyse **one** possible reason for the difference between the company's profits and net cash flow.
 (6 marks)

| | Content 1 mark | Application 2 marks | Analysis 3 marks |
|----------------|---|---|--|
| Level 2 | | 2 marks Candidate applies knowledge effectively | 3 marks Good analysis using appropriate theory/arguments |
| Level 1 | 1 mark Candidate identifies single relevant reason/gives definition | 1 mark Candidate makes limited attempt to apply knowledge | 2-1 marks Limited analysis of reasons using appropriate theory/arguments |

Relevant answers might include some or all of the following:

- Profit is revenue less costs but net cash flow is cash inflows less cash outflows.
- Cash flow is not same as profit during the same period due to: capital expenditure, credit sales, repayment of loans, supplies on credit, loans obtained.
- WHS may have been spending heavily on capital projects such as shop refits. This would lower net cash flow but have no impact on short term profits.
- Loan repayments or paying back suppliers to reduce credit period received from them would lower net cash flow but would not affect the profit figure.

(d) Discuss the marketing measures that WHSmith could take to increase profits. (9 marks)

| | Content 2 marks | Application 2 marks | Analysis 3 marks | Evaluation 2 marks |
|----------------|--|--|---|--|
| Level 2 | 2 marks Candidate shows good understanding of more than one measure to increase profits or definition plus some understanding | 2 marks Candidate applies knowledge effectively to WHSmith | 3 marks Good analysis using appropriate theory or argument(s) | 2 marks Good judgement shown in answer |
| Level 1 | 1 mark Candidate shows understanding of one measure or definition. | 1 mark Candidate attempts to apply knowledge to WHSmith | 2-1 marks Some analysis using appropriate theory or argument(s) | 1 mark Limited judgement shown in answer |

Relevant answers might include the following:

- Continue with refit programme – see how new stores are performing and carry on with programme if successful. This could encourage longer stays and more sales per customer. Expensive though.
- Raise or lower prices – but PED could lead to higher contribution per customer but fewer customers/sales overall.
- Increase value added to justify higher prices – range of goods, packaging, décor etc. – see judgement points above.
- Improve take up of loyalty card to encourage increased purchases – but will the additional sales pay for the increased benefits of the card offered to customers?
- Become more specialised – need market research to identify relevant market segments.

Sample routes to evaluation:

- 1 Choice of most appropriate measure
- 2 Estimate of chance of success
- 3 Judgement in context of WHSmith
- 4 Consideration of varying timescales

2

Total for this question: 25 marks

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| (a) | What is meant by the term “profit centres” (line 7)? | <i>(2 marks)</i> |
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| | Content 2 marks |
| Level 2 | 2 marks Candidate demonstrates good understanding of the term |
| Level 1 | 1 mark Candidate demonstrates some understanding of the term |

A profit centre is a department/division of a business with its own profit and loss account **OR** which has been given the authority to run as a separate business within a business.

NB Award **one** mark for notion of separate element of business.

| | | |
|-----|--|------------------|
| (b) | Kodak is considering lowering the price of camera film. Explain one difficulty of using the concept of price elasticity of demand when deciding whether to lower the price of Kodak branded film. | <i>(6 marks)</i> |
|-----|--|------------------|

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|----------------|--|--|
| | Content 3 marks | Application 3 marks |
| Level 2 | 3 marks Candidate defines/offers formula for PED plus identifies one difficulty | 3 marks Candidate applies knowledge effectively |
| Level 1 | 2-1 marks Candidate demonstrates some understanding of problem and/or formula/definition for PED | 2-1 marks Candidate makes attempt to apply knowledge |

Relevant answers might include some or all of the following:

- PED measures the responsiveness of demand for the product following a change in its price. Calculated by: % Change in QD / % Change in Price.
- Problems of using it include: The problem of measuring it accurately: other factors could easily effect sales after price change e.g. actions of competitors or technological changes;
- can only be calculated following a price change and firm may not have done this recently;
- could be estimated from past results (may be misleading now) or market research (uncertain accuracy).
- In this case, the particular problems are that past results are likely to be misleading (new technology, new competitors in the form of own brand film made by Kodak) and impact on image of price reductions for this branded product could make results difficult to analyse.

(c) Examine **two** ways in which product portfolio analysis might be useful to Kodak's management. (8 marks)

| | Content 2 marks | Application 2 marks | Analysis 4 marks |
|----------------|---|---|---|
| Level 2 | 2 marks Candidate demonstrates a good understanding of PPA or two ways | 2 marks Candidate applies knowledge effectively | 4-3 marks Good analysis of PPA |
| Level 1 | 1 mark Candidate demonstrates limited understanding of PPA or one way | 1 mark Candidate makes attempt to apply knowledge | 2-1 marks Limited analysis of PPA |

Relevant answers might include the following:

- Product portfolio analysis includes product life cycle: (the stages a product passes through from introduction to decline) and Boston matrix: (analysing the current position of existing products in terms of market share and market growth).
- Either is acceptable.
- PLC would allow Kodak to analyse the declining products in their range and take (earlier) action to either extend their lives or replace with new products.
- PLC allows analysis of the marketing mix to ensure that it is adapted to meet the stage that each product is in.
- Boston matrix would allow Kodak to use cash cows (film) to generate cash to finance new products or promote problem child products.
- In general terms, either of these techniques should allow the firm to make appropriate and well timed decisions to replace, promote or adapt existing products.

(d) Discuss how Kodak might raise the \$3 billion needed to finance its new plans. (9 marks)

| | Content 2 marks | Application 2 marks | Analysis 2 marks | Evaluation 3 marks |
|----------------|---|--|--|--|
| Level 2 | 2 marks Candidate offers two or more relevant responses | 2 marks Candidate applies knowledge effectively to Kodak's circumstances | 2 marks Good analysis using appropriate theory/arguments | 3 marks Sound judgement shown in answers |
| Level 1 | 1 mark Candidate offers single relevant response | 1 mark Candidate attempts to apply knowledge to Kodak's circumstances | 1 mark Limited analysis using appropriate theory/arguments | 2-1 marks Some judgement shown in response |

Relevant answers might include the following:

- Retained profits by reducing dividends, but shareholder reaction could be negative depressing share price
- Sale of assets.
- Long-term loans/debentures, but article suggests Kodak is becoming a poor risk and interest rates offered might have to increase to attract loan capital
- Sale of shares, but share price already depressed by bad news and dividend cut. Impact on overall control of business?
- Short-term sources (only acceptable if qualified)

Sample routes to evaluation:

- 1 Context of Kodak
- 2 Amount source will raise