



## General Certificate of Education

# Business Studies 6131

*BU5W Business Report and Essay*

## Mark Scheme

*2006 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 Level candidates, mainly 18 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates at the end of a full A Level course.*

### **Positive Marking**

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

### **Mark Range**

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

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

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

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

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

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

The skills we seek from candidates are as follows:

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

### **Quality of Language**

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

- |         |   |                |
|---------|---|----------------|
| LEVEL 4 | Complex ideas are expressed clearly and fluently. Sentences and paragraphs follow on from one another smoothly and logically. Arguments are consistently relevant and well structured. There are few, if any, errors of grammar, punctuation and spelling.  | <b>4 marks</b> |
| LEVEL 3 | Moderately complex ideas are expressed clearly and reasonably fluently, through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling.  | <b>3 marks</b> |
| LEVEL 2 | Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas. | <b>2 marks</b> |
| LEVEL 1 | Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas.  | <b>1 mark</b>  |

**Total 4 marks**

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1

**Total for this question: 40 marks**

You are a business analyst with Ventura Ltd. Write a report to your directors, analysing the main strengths and weaknesses of Healthcheck Ltd, and recommending whether or not to invest in the business. You should fully justify your recommendation.

*(2 marks are included for appropriate report format.)*

*(40 marks)*

**Answers might include:**

**Strengths**

- UK patent; this provides protection from the competition for several years and should enable higher profits and prevent imitation. (However, rivals can often find ways to provide similar types of products if an idea proves successful. Also, further protection will be needed as the firm expands into other markets).
- Both Alex and Jamil seem experienced and have complementary skills (marketing and technology). This could help the business to succeed (and help to overcome the problem of poor management which seems to be a major cause of failure according to **Appendix E**). The expansion abroad may fit with Alex's experience in this area and linguistic abilities (depending on which countries are chosen). Generally, they seem to plan (eg a business plan has been produced) and test appropriately (two years of development and testing before commercialisation).
- If the sales forecast is correct, then this year, the firm will make a profit (this is only the third year of operations) and by 2010, the firm's profits would be £4 million. (May question the reliability of the sales and profit forecast – the firm will be eager to impress, to attract investors with its projections, although it has spent quite significantly on market research).
- Alex and Jamil have invested their own savings which shows commitment. They will want to make this business work!
- Falling value of Euro might help export sales if being sold from UK (although depends, eg on whether the products are price sensitive).
- High proportion of population over 45 and high proportion are overweight; likely to be interested in health care; would be interesting to see trends in these figures post 2007.
- Could relate to general interest in health and fitness trends.

**Weaknesses**

- There seem to be financial concerns, eg long debtor days (especially relative to time taken to pay suppliers) and high level of borrowing relative to capital employed. Liquidity problems are the major cause of business failure according to **Appendix E** (and this is a relatively large sample so likely to be reliable) so this needs dealing with.
- Jamil has many responsibilities (too many?) Finances may need to be made a priority (especially given that liquidity seems to be such an important cause of business failure).
- For an investment equal to the amounts put in by Alex and Jamil combined, the venture capital company would only own 25%. This may not be enough to really influence company decisions. Would Ventura be happy if it could not determine the firm's strategy?
- Very dependent on Gates plc for UK sales. The terms and conditions do not seem especially favourable, eg low % of retail price and short cancellation period. The firm's bargaining position looks weak relative to Gates plc and Gates dominates the market, so may be difficult to find alternative distribution.
- Low R&D; may limit future development of products; may become over reliant on one product.

**Recommendations**

- On the basis of the forecasts, the company may well be successful and its value may increase significantly. However, there is a high degree of risk (although this is what the venture capital companies specialise in).
- The positives include: the experience and commitment of the management team, the UK patent, the use of testing before launch.

However, the venture capital company may be concerned about:

- whether the product is going to be protected in Europe as well as UK
- whether Jamil is taking on too much; do they need to delegate/hire someone else to get the finances under control, eg appoint a finance director
- the percentage of the company Ventura will own; if Alex and Jamil have invested all their savings and Healthcheck has high borrowings, they may be fairly desperate for an injection of funds. Can Ventura own more than 25% of Healthcheck?
- whether some of the finance is used to invest in new products. This may be desirable so that the firm spreads its risks for the future
- the reliance on Gates plc; may be important to try to win new contracts within the UK to reduce reliance on Gates plc.

Depends on Ventura's:

- willingness to take risk
- alternative projects
- likelihood that Healthcheck would get finance elsewhere.

**Business report**

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

2

**Total for this question: 40 marks**

Employees in several large, global industries such as oil, construction and aircraft manufacturing have made payments, or given gifts, to key staff of their potential customers to try to win contracts. To what extent do you think such payments and gifts are acceptable? (40 marks)

**Answers may include:**

- Maybe unacceptable because they give an unfair advantage, eg not winning on the basis of the quality of service. The bosses of the employees of the customer, who have received these gifts, may not realise that such gifts are being given and that it is influencing their decision.
- Maybe defended on the basis that winning a contract saves/creates jobs, income, work for suppliers, ie ends justifies the means. These are industries where a contract may be worth millions or billions of pounds so winning or losing has huge impact.
- May depend on who you ask, eg competitors, the person giving or receiving the gift.
- Maybe misusing shareholders' funds – would they approve of such use of their funds if they knew? Have they authorised this use of funds?
- What are other firms in this industry doing? What is the culture of the industry and “normal” behaviour?
- These industries are global operating in many countries – the business culture may be different in some regions; this type of payment may be more normal.

**May depend on:**

- Size of gift, eg should we worry about a pen or letter opener?
- Motive behind the gift – is it really to win the contract or just to show friendship?
- Whether other firms do the same.
- The law.
- The company policy, eg has it made clear that employees should not give gifts?
- The culture of the organisation – the pressure might be on to deliver results at all costs; may not be acceptable, but may understand why it is done.

3

**Total for this question: 40 marks**

China has a population of over one billion people. Over the past two decades its economy has been growing at an average of 9.5% per annum. To what extent does China provide an opportunity for or present a threat to UK producers of goods and services? *(40 marks)*

**Answers may include:**

Opportunities and threats:

- more demand; opportunity to access over one billion customers
- new market if domestic markets are maturing or are saturated
- more competition from Chinese firms eg textiles
- cheaper location in which to produce
- access to more suppliers.

Depends on:

- future expected trends, eg continued growth
- the type of business the firm is in, eg services may be less threatened than manufacturers; high value-added producers may be less threatened than low value-added producers
- whether UK firms are proactive; whether they have planned for this
- possible changes in the value of the currency
- government action, eg does it help exporters?



4

**Total for this question: 40 marks**

Cadbury, Mars and Nestlé dominate the UK confectionery market. To what extent are their stakeholders likely to benefit as a result of this domination? *(40 marks)*

**Answers may include:**

- Competitors, or would be entrants, may find it difficult to compete against such large firms, eg market power may make access to the market or expansion difficult for them.
- Brand loyalty may be strong; again making it difficult for smaller competitors.
- The large scale of these firms may be good for their suppliers and employees; possibly some sense of security for them. However, it may mean that these firms have more bargaining power and force down prices of supplies.
- Dominance may mean higher rewards for investors; depends on how it is achieved and how the power is used.
- Dominance may mean more funds for community projects and investment in social issues.
- Dominance maybe because of good customer focus meaning better products.
- Dominance may mean pressure on retailers to take their products.

**Depends on:**

- How dominance is measured; more sales and market share does not necessarily mean these firms are more profitable.
- What is happening in their other markets, eg they will all operate globally so the impact on investors will not just be dependant on the UK market.
- Which stakeholder group is being considered; some may benefit but others may not.
- Dominance is not guaranteed, so any benefits may not be long lasting.
- Depends on behaviour of firms, eg dominance could lead to abuse of market power or could lead to (or be the result of) good stakeholder partnerships.
- Depends on how they behave towards each other, eg competition v collusion.

5

**Total for this question: 40 marks**

Coca-Cola company is the world's largest soft drink producer with 400 brands in 200 countries. In 2004, its sales were nearly \$22 billion and the value of the business was over \$103 billion. To what extent is Coca-Cola guaranteed further success in the future? *(40 marks)*

**Answers may include:**

Yes:

- strong brand makes entering markets and brand extension easier
- strong marketing skills with proven track record
- financial resources, eg to boost marketing when threatened
- global reach, eg ability to push products through distribution channels
- diversity, so if one market or one brand is hit it can fall back on others.

No:

- Even very successful companies can fail due to eg
  - poor management
  - more effective competition (eg Pepsi)
  - changing conditions (eg pressure groups forcing Coca-Cola out of schools)
  - political issues (eg Coca-Cola has been strongly identified within American values and policy which at times has worked against it).

Depends on:

- How flexible the management is, can it spot opportunities and react appropriately?
- Whether it is a learning organisation; is it continually looking for ways of improving?
- It may have an advantage over, eg newcomers but nothing can guarantee success.
- How we define success – no mention of profits in the question; how successful has it been in recent years?

**Essay**

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