



**General Certificate of Education (A-level)
June 2012**

Business Studies

BUSS2

(Specification 2130)

Unit 2: Managing a Business

Mark Scheme

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

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of 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.

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	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 .

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether students' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and good application, award Level 5 full marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero is appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways and annotated as GAp.

- **By combining data.** For example, in responding to question 2(b), a student might achieve good marks for application by combining the notions that the company is entering the European market for the first time and needs to spend heavily on promotion but that its financial position is weak as it has made relatively small profits recently.
- **By manipulating data.** For example, when answering question 2(d), students might use the data available to calculate that its forecast profit margin in 2013 will be negative (11.63%), assuming it receives premium prices. When used as part of a relevant argument, this can receive appropriate marks for good application.
- **By being firmly embedded in the context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario.

Reasonable application supports the student's response but is not focused well on the question or is limited in its extent. For example, if a student, when developing an argument, makes a single reference to the context, this is reasonable application. Annotate this as RAp. An example of this in answering question 1(b) could be that the company has suffered a doubling of the rate of labour turnover to 24%.

Some application will only be credited as a L1 response. This could be relevant application which is not used as part of an argument. Some students simply copy out part of the case and offer application which is not relevant to the question.

ANALYSIS

Good analysis is shown when a student develops a chain of argument with **a clear focus** on the question. Annotate as GAn. This will be focused on the precise question, fully examining how or why or the causes and effects as appropriate. For example, when responding to question 2(c), a line of argument which develops the case for adopting a TQM system by considering the importance of training and the greater authority given to employees under this system and relates this to the likely impact on the motivation of the company's employees and their subsequent performance and thus Calum's decision, should receive marks for good analysis. Good analysis focuses squarely on the precise question that was asked.

Reasonable analysis is shown through less developed chains of argument or those with a less clear focus on the question. Annotate as RAn. It may rely, in part, on assertion rather than explanation.

Some poor quality analysis may form part of a L1 limited response. This would include:

- lines of analysis of very limited relevance to the question
- analysis with minimal development or those that rely entirely on assertions (such as increased pay will always improve motivation).

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the 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

Total for this question: 40 marks

1 (a) Analyse **two** possible solutions to *TT Ltd's* poor level of customer service.
(7 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	7
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers might include the following:

- customer service is meeting the needs of a customer before, during and after the purchase of a product.

Relevant themes for application may include:

- the company's expenditure on market research is set to decline by £1.5 million (whilst its profit margin is rising)
- switching the training budget from health and safety issues towards customer service skills
- not simply focusing on short-term profit (as Carmella does) but on reducing the prices charged to customers
- TT Ltd's* facilities should be extended and this will help to reduce waiting times.

Relevant lines of analysis may include:

- providing employees with relevant training to improve employees' performance and standards of customer service
- the company may undertake primary market research to understand as fully as possible the needs of its customers
- the standard of customer service could be improved by reducing prices so that the company's services represent better value for money.

Reasonable analysis on this question could be achieved, for example, by a student developing a line of argument that links training to improved customer service without explaining how or why such an outcome might result.

1 (b) *Examine the possible consequences for TT Ltd of delegating budgets to site managers at each of its 28 sites.* (7 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	7
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers might include the following:

- budgets are financial plans
- delegation is the act of passing authority down the organisational structure.

Relevant themes for application may include:

- motivation within the business has been declining recently as is shown by the doubling of labour turnover
- some of the newer sites appear to have insufficient facilities
- the training budget is directed mainly at health and safety and this may need to be adjusted to provide managers with the necessary skills to manage budgets
- making an immediate decision does not allow time for preparation for this change.

Relevant lines of analysis may include:

- delegation may improve the level of motivation within a business by, for example, allowing employees to fulfil one or more of Maslow's higher needs
- delegation could increase costs in the short term and this could reduce the company's profit margin
- the company may need to invest in a programme of training to equip employees with the skills necessary to carry out their new roles
- there may be higher levels of expenditure as a result of delegation as managers may not restrict expenditure effectively
- expenditure may be focused more on the particular needs of individual sites allowing managers to attract more customers and to increase sales revenue.

A **limited response** on this question would be appropriate for a student who demonstrates some understanding of delegation but who fails to develop relevant arguments and who includes application that is not used in arguments.

1 (c) *In May 2012, Carmella and the other directors decided to continue setting prices 10% above those of rivals. Do you think that this is the correct decision? Justify your view. (13 marks)*

Level	Descriptor	Marks
L5	Good application AND Good analysis	9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers might include the following:

Relevant themes for application may include the following:

- the company is very profitable (and increasingly so) and Carmella’s business model appears to work well; its profit margin is 21.7%
- the company has responded to the slight decline in sales by increasing spending on marketing (switching £1.5 million to advertising and targeted sales promotions) and this should help to boost sales once again
- this company is setting significantly higher prices than its competitors (10%)
- the company faces price elastic demand (–2.0), although this is an outdated figure which relates to ‘this type of leisure product’
- customer numbers have increased over a number of years (although there was a small decline in 2011).

Relevant lines of analysis may include the following:

- the company should assess its performance in terms of sales revenue and profits (or profit margins) and consider trends before making this type of decision
- reducing its prices would generate more revenue probably increasing overall profits
- the company should conduct market research to establish how customers view the company’s pricing policy and this could then influence a subsequent decision
- there is some evidence of customer dissatisfaction and complaints and the 1.5% fall in numbers may accelerate.

Good application could be achieved by a student calculating the effect on sales revenue of a price reduction using the figure for price elasticity.

See next page for ideas for evaluation and the evaluation grid.

Ideas for evaluation might include:

- Carmella’s business objective is maximising short-term profits and her high prices give a high margin per customer which appears to achieve her objective
- *TT Ltd’s* rival has announced expansion plans and this might offer customers more choice meaning this is a poor decision at this time
- it is possible that the company’s marketing mix is not co-ordinated: the product (especially at newer sites) and price do not match.

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 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 limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

1 (d) *Carmella would like to link employees' pay to achieving targets on customer numbers. Do you think the other directors should approve this proposal? Justify your view. (13 marks)*

Level	Descriptor	Marks
L5	Good application AND Good analysis	9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers might include the following:

Relevant themes for application may include the following:

- customer numbers declined in 2011
- the company's level of labour turnover has doubled to 24%
- *TT Ltd's* rival is expanding making the labour market more competitive
- the company has already received complaints about long waiting periods
- *TT Ltd* already pays 'generous' wages.

Relevant lines of analysis may include the following:

- increased pay may improve employee performance and increase customer numbers if financial factors are a major influence – Taylor's motivational theory
- this change will increase the company's profit margin if the percentage increase in customer numbers is greater than the rise in wage costs
- and increasing customer numbers is only likely to be successful if the company has the facilities available to meet the increased demand
- workforce performance and hence customer numbers can be improved using a range of approaches including managing employees' workloads and redesigning jobs (Mayo, Herzberg etc...).

Good application may be achieved by combining the forecast of a 5% increase in customer numbers with the existence of queues and long waiting periods.

See next page for ideas for evaluation and evaluation grid.

Ideas for evaluation might include:

- financial methods of motivation are not the best in this situation and do not match with delegation of budgets
- what is the purpose of this change? If it is to increase customer numbers, a price cut might be more effective
- if the company’s objective is to maximise short-term profits, this scheme is likely to help to achieve this – if it works.

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 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 limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

2

Total for this question: 40 marks

<p>2 (a) Calculate the forecast annual labour productivity for the company's mussel farm in Dorset in 2014. (5 marks)</p>
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Labour productivity = $\frac{\text{Total output over a given period}}{\text{number of employees}}$ **(2 marks)** **

** Award only if this knowledge is not implicit in other aspects of the response.

Correct answer: 72 tonnes (5 marks)

Number of employees in 2014 = $40 \times 1.5 = 60$ **(1 mark)**

Labour productivity = $\frac{4\,320 \text{ tonnes}}{60}$ **(2marks)** = 72 **(1 mark)** tonnes **(1 marks)** per employee

2 (b) Analyse **two** possible influences on the company's marketing mix. (7 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	7
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	6
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers may include the following:

- the marketing mix is the combination of elements that influence a customer's decision on whether or not to buy a product.

Relevant themes for application may include the following:

- the company's financial position is relatively weak having made small profits recently
- the market research it has completed suggests slowly rising demand
- its position as a new entrant to the market. The company is unknown in its target markets of Holland and Belgium and will have to invest heavily in promotion
- mussels are perishable and so must be distributed quickly or sold frozen.

Relevant lines of analysis may include the following:

- a company may seek to increase its prices following a major period of expenditure in order to recoup its investment
- any decisions on the marketing mix are likely to be influenced by the results of market research, especially if it is up-to-date market research
- a company is likely to spend heavily on promotion if it is relatively unknown in its target markets or when entering a new market to increase consumer awareness.

A **limited response** based mainly on knowledge would be appropriate for students who demonstrate knowledge of the marketing mix, but do not consider the influences on this.

2 (c) *To what extent do you agree with Calum’s decision to introduce a total quality management (TQM) system?* (14 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers might include the following:

- TQM is a quality assurance system that is designed to affect the attitudes and actions of every employee in a business.

Relevant themes for application may include the following:

- the company is entering a new market in Europe
- the nature of the product means that assuring quality is very important, not least in terms of distribution
- the company can expect to receive a price premium for high quality mussels of £500 per tonne. At full production this could increase the company’s revenue by £2.16 million
- the company’s financial position is not strong
- there may be some opposition to the introduction of TQM: the workforce was not consulted and employees from Scotland are used to a system of quality control.

Relevant lines of analysis may include the following:

- the introduction of TQM involves the use of teams which may motivate employees improving productivity
- the workforce will need training to prepare for the introduction of TQM and this can impact on a company’s operations
- the cost of training may be difficult to finance and may preclude expenditure in other areas such as marketing.

Good application could be awarded to a student who calculates the impact on revenue of selling all output at premium prices (£2.16 million increase) as part of an argument of the benefits of introducing TQM.

Ideas for evaluation and the evaluation grid are on the next page.

Ideas for evaluation might include:

- it will probably depend on the timescale – in the long run this is a good decision to help this company to establish itself in a new market
- it is the right decision but the way in which it was taken was wrong and likely to upset employees
- it depends on consumers' expectations in Holland and Belgium: if they are for high quality mussels then the company has made the correct decision.

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 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 limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

2 (d) *Is Calum right to be more worried about the company's cash flow rather than its profitability? Justify your view. (14 marks)*

Level	Descriptor	Marks
L5	Good application AND Good analysis	9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response based mainly on knowledge	3–1

Relevant answers may include the following:

- profitability normally measures profits in relation to some other measure such as sales revenue
- cash flow is the movement of cash into and out of a business over time.

Relevant themes for application may include the following:

- the company has had a period of low profitability and its profit margin was just 3.7% in 2011
- its profit margin is very low when judged against its heavy investment (over £12 million) in the new mussel farm
- the company will not sell any mussels in 2012 and will inevitably incur a loss as it pays wages and other costs to develop its new farm in Dorset
- in 2013, the company's total revenue will be £7.525 million, its total costs £8.4 million and its loss £875 000. Its forecast profit margin will be (11.63%) (assuming it earns a price premium)
- the company's current cash flow position is weak – it is heavily negative at over £2.5 million
- in 2014, the company's total revenue is forecast to be £15.12 million and its total costs £11.85 million giving a profit of £3.27 million. Its forecast profit margin will be 21.63%.

Lines of analysis may include the following:

- the company profitability will depend, to some extent, on the actions that its competitors take with regard to their prices or to their marketing actions
- profitability is important to a business in the longer term – it may be able to survive periods during which it makes a loss. Businesses can take time to build up a profitable customer base.
- rising prices in the market will help to improve the company's profit margins in the future
- cash flow is a short-term financial factor for a business and a major cause of failure therefore it should be managed carefully in the short and long term.

Ideas for evaluation might include:

- it depends on the timescale: Calum is right not to be concerned about profits in the longer term (2014 onwards) as the profit margin is very healthy, especially when compared to 2011
- cash flow is vital as the company may not be able to survive if it cannot pay its way – much may depend on the attitude of the company’s bank and its willingness to fund the overdraft
- the other directors may be right given that the company moved to Dorset to improve its profitability
- quite possibly both are correct as in 2013 at least, the company will face cash flow and profitability problems.

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 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 limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1