



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2011**

Business Studies

Assessment Unit AS 1

assessing

The Competitive Business

[AT111]

MONDAY 10 JANUARY, AFTERNOON

MARK SCHEME

- 1 (a) Explain the importance of market growth to a producer of organic food.

Market growth refers to the increase in sales in a market over a period of time. The sales of organic products fell by 12.4% over the last year although it is predicted that they will rise between 2% and 5% in 2010.

A producer of organic foods would be very concerned about market growth. Firms use such information to identify trends and help make important commercial decisions about when to invest or how to deal with competition, etc.

| | AO1 Knowledge and Understanding [2] | AO2 Application [2] |
|----------------|--|---|
| Level 2 | [2] Candidate demonstrates good understanding of market growth. | [2] Candidate applies knowledge effectively. |
| Level 1 | [1] Candidate demonstrates some understanding of market growth. | [1] Candidate attempts to apply knowledge. |
| Level 0 | [0] Candidate demonstrates no understanding of market growth. | [0] Candidate does not attempt to apply knowledge. |

[4]

(b) Explain what is meant by a niche market, using an example from the case study to illustrate your answer.

A niche market is the term used to describe a narrow or focused subset of a larger market sector.

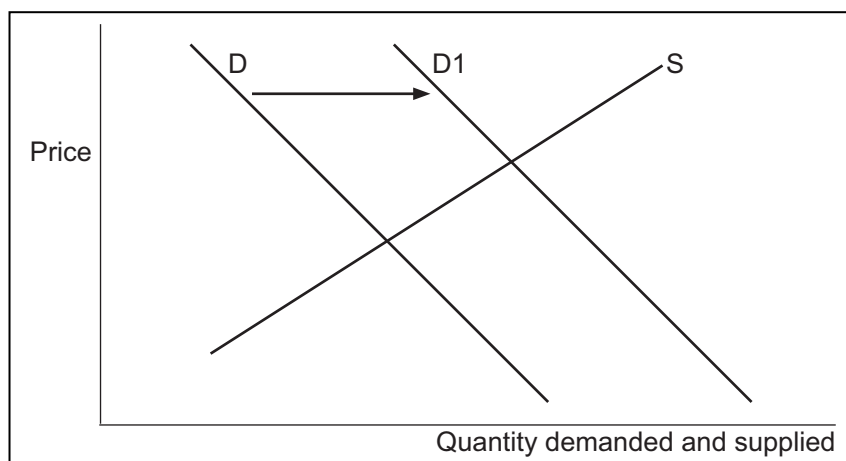
The most obvious example from the case study is the market for organic food and drink products, which is a subset of the larger food and drinks market.

Candidates may use other relevant examples from the case study. For example, the market for a particular style or type of coat, or a similar example relating to knitwear.

| | AO1 Knowledge and Understanding [2] | AO2 Application [2] |
|----------------|---|---|
| Level 2 | [2] Candidate demonstrates good understanding of a niche market. | [2] Candidate applies knowledge effectively. |
| Level 1 | [1] Candidate demonstrates some understanding of a niche market. | [1] Candidate attempts to apply knowledge. |
| Level 0 | [0] Candidate demonstrates no understanding of a niche market. | [0] Candidate does not attempt to apply knowledge. |

[4]

(c) Using demand and supply curves, analyse the possible effect of the severe winter weather on the equilibrium price and quantity of coats.



The severe winter weather caused the demand for Marks and Spencer coats to increase. This shifted the demand schedule out to the right, causing excess demand at the original price. The retailers responded by increasing price which in turn increased the quantity supplied on to the market. Ultimately, there were more coats bought and sold on the market at a higher price than before.

| | AO1 Knowledge and Understanding [2] | AO2 Application [2] | AO2 Analysis [4] |
|----------------|--|---|---|
| Level 2 | [2] Candidate demonstrates good understanding of demand and supply. Candidate makes good use of specialist vocabulary when it is appropriate. | [2] Candidate applies knowledge effectively. | [4]–[3] Good analysis of demand and supply. |
| Level 1 | [1] Candidate demonstrates some understanding of demand and supply. Candidate makes good use of specialist vocabulary when it is appropriate. | [1] Candidate attempts to apply knowledge. | [2]–[1] Limited analysis of demand and supply. |
| Level 0 | [0] Candidate demonstrates no understanding of demand and supply. | [0] Candidate does not attempt to apply knowledge. | [0] No analysis of demand and supply. |

[8]

- (d) Discuss the advantages and disadvantages to a business such as Marks and Spencer of conducting primary market research.

Businesses such as Marks and Spencer have to choose between different methods of market research. Primary research involves the collection of original data for a specific purpose.

The benefits of using primary research to a business such as Marks and Spencer might include:

- it is up-to-date information that enables Marks and Spencer to predict the demand for new products
- the information is not available to any competitors so Marks and Spencer can use it to get ahead in the market
- Marks and Spencer can verify the accuracy of any information that it attains rather than relying on perhaps misleading secondary data
- the information obtained will be very relevant to the specific needs of Marks and Spencer
- may also be used as part of a promotion by Marks and Spencer.

The disadvantages of using primary research to a business such as Marks and Spencer might include:

- primary research can be very expensive to carry out both in terms of the amount of planning required and the cost of gathering the data
- primary research is often difficult to carry out and requires specialist knowledge and experience. If this is lacking it may lead to poor commercial decisions being made
- results obtained may be inaccurate or biased which could prove expensive for Marks and Spencer.

As part of their discussion, candidates should consider both positive and negative aspects and come to a final judgement.

Candidates are expected to evaluate throughout.

| | AO1 Knowledge and Understanding [3] | AO2 Application [2] | AO2 Analysis [3] |
|----------------|--|---|---|
| Level 3 | [3] Candidate demonstrates very good understanding of the advantages and disadvantages. Candidate makes good use of specialist vocabulary when it is appropriate. | | [3] Very good analysis of arguments. |
| Level 2 | [2] Candidate demonstrates good understanding of the advantages and disadvantages. Candidate makes good use of specialist vocabulary when it is appropriate. | [2] Candidate applies knowledge effectively. | [2] Good analysis of arguments. |
| Level 1 | [1] Candidate demonstrates some understanding of the advantages and disadvantages. Candidate makes good use of specialist vocabulary when it is appropriate. | [1] Candidate attempts to apply knowledge. | [1] Limited analysis of arguments. |
| Level 0 | [0] Candidate demonstrates no understanding of the advantages and disadvantages. | [0] Candidate does not attempt to apply knowledge. | [0] No analysis of arguments. |

| | A04 Evaluation [4] |
|----------------|--|
| Level 3 | [4] Candidate gives a full evaluation of the arguments presented and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner. |
| Level 2 | [3]–[2] Candidate gives a satisfactory evaluation of the arguments presented and comes to a final judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a satisfactory manner. |
| Level 1 | [1] Candidate attempts some evaluation of the arguments presented. The candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the purpose of the question. The organisation of the answer is limited. |
| Level 0 | [0] Candidate makes no attempt to evaluate the arguments presented. |

[12]

- (e) Evaluate price cutting as a strategy for increasing sales in a supermarket such as Sainsbury.

Changing the marketing mix, or elements within it, is a popular method of increasing the sales for a product. In the case study, businesses used price cutting to try to gain market share. There are many advantages to a supermarket such as Sainsbury of doing this:

- it will enable Sainsbury to put smaller supermarkets/corner stores under pressure as they cannot afford to cut prices so much. Sainsbury can benefit from bulk buying
- cutting prices is likely to be very popular with consumers and may increase market share significantly
- demand for groceries is likely to be price elastic so cutting prices may even mean that total revenue is actually increased
- loss leader aspect of price cutting. Consumers may buy other products once in store.

Negative implications of cutting prices might include:

- it may begin a price war with some of the other large supermarkets who have the resources to match or even beat Sainsbury
- reference is made in the case study that margins were already so tight that further price cuts are simply impractical
- it may force Sainsbury to put even more pressure on their suppliers which forces many of them out of business in the longer term
- consumers then expect prices to be kept low all the time which affects long-term profitability
- may affect brand image negatively as consumers equate price with quality.

As part of their discussion, candidates should consider both advantages and disadvantages of the price cutting strategy and come to a final judgement.

Candidates are expected to evaluate throughout.

| | AO1 Knowledge and Understanding [3] | AO2 Application [2] | AO2 Analysis [3] |
|----------------|---|---|--------------------------------------|
| Level 3 | [3] Candidate demonstrates very good understanding of the implications of price cutting. Candidate makes good use of specialist vocabulary when it is appropriate. | | [3] Very good analysis of points. |
| Level 2 | [2] Candidate demonstrates good understanding of the implications of price cutting. Candidate makes good use of specialist vocabulary when it is appropriate. | [2] Candidate applies knowledge effectively. | [2] Good analysis of points. |
| Level 1 | [1] Candidate demonstrates some understanding of the implications of price cutting. Candidate makes good use of specialist vocabulary when it is appropriate. | [1] Candidate attempts to apply knowledge. | [1] Limited analysis of points. |
| Level 0 | [0] Candidate demonstrates no understanding of the implications of price cutting. | [0] Candidate does not attempt to apply knowledge. | [0] No analysis of points. |

| | A04 Evaluation [4] |
|----------------|--|
| Level 3 | [4] Candidate gives a full evaluation of the arguments presented and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner. |
| Level 2 | [3]–[2] Candidate gives a satisfactory evaluation of the arguments presented and comes to a final judgement. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing, form and style appropriate to the purpose of the question. Answer is organised in a satisfactory manner. |
| Level 1 | [1] Candidate attempts some evaluation of the arguments presented. The candidate makes limited use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the purpose of the question. The organisation of the answer is limited. |
| Level 0 | [0] Candidate makes no attempt to evaluate the arguments presented. |

[12]

40

2 (a) Explain **two** ways by which Dyson Ltd. could measure the quality of its products.

Product quality relates to the degree to which a product fulfils its requirements. It includes aspects such as reliability, safety, durability, usability, after sales service and customer care.

Dyson Ltd. may measure the quality of its products in a number of ways. These might include:

- the number of products having to be re-worked or scrapped
- the number of customer complaints
- the number of faulty products returned by retailers
- market research showing customer satisfaction/dissatisfaction
- the achievement of a quality standard by the company
- benchmarking
- quality control/quality assurance/product testing.

| | AO1 Knowledge and Understanding [2] | AO2 Application [2] |
|----------------|--|---|
| Level 2 | [2] Candidate demonstrates good understanding of product quality. | [2] Candidate applies knowledge effectively. |
| Level 1 | [1] Candidate demonstrates some understanding of product quality. | [1] Candidate attempts to apply knowledge. |
| Level 0 | [0] Candidate demonstrates no understanding of product quality. | [0] Candidate does not attempt to apply knowledge. |

[4]

(b) Explain what is meant by limited liability, using an example to illustrate your answer.

A private limited company has a separate legal entity from its shareholders. This means that any debts incurred by the business belong to the company and are not the responsibility of the individual shareholders. If the company becomes insolvent the individual shareholders will not have to sell their private possessions to cover the debts of the company. The shareholders will only lose what they have invested in the company.

Dyson Ltd. is a private limited company so its shareholders enjoy limited liability. Its shareholders are Sir James Dyson, his wife and three children. His personal wealth of more than £920 million would be safe and his potential loss limited to the shares owned in the company.

| | AO1 Knowledge and Understanding [2] | AO2 Application [2] |
|----------------|--|---|
| Level 2 | [2] Candidate demonstrates good understanding of limited liability. | [2] Candidate applies knowledge effectively. |
| Level 1 | [1] Candidate demonstrates some understanding of limited liability. | [1] Candidate attempts to apply knowledge. |
| Level 0 | [0] Candidate demonstrates no understanding of limited liability. | [0] Candidate does not attempt to apply knowledge. |

[4]

(c) Analyse the advantages to Dyson Ltd. of producing a range of different products.

The advantages to Dyson Ltd. of producing a range of different products might include:

- risk is spread for the company. If one product fails there are others to fall back upon. For example, the washing machine failure cost Dyson £90 million
- Dyson Ltd. can ensure that the positive cash flow from its successful products can help to fund the development and launch costs of its new ones
- it enhances the corporate image of the company in the eyes of consumers and financial institutions
- not all products will be at the same stage in their life cycles in different countries so Dyson's growth can be properly managed
- products can complement each other and enable Dyson to compete in related markets as it builds up the brand image
- technology can be transferred across products to make production more efficient and develop new product features for consumers
- more markets leading to more customers and more sales.

| | AO1 Knowledge and Understanding [2] | AO2 Application [2] | AO2 Analysis [4] |
|----------------|--|---|---|
| Level 2 | [2] Candidate demonstrates good knowledge and understanding of product range. Candidate makes good use of specialist vocabulary when it is appropriate. | [2] Candidate applies knowledge effectively. | [4]–[3] Good analysis of relevant examples. |
| Level 1 | [1] Candidate demonstrates some knowledge and understanding of product range. Candidate makes good use of specialist vocabulary when it is appropriate. | [1] Candidate attempts to apply knowledge. | [2]–[1] Limited analysis of relevant examples. |
| Level 0 | [0] Candidate demonstrates no knowledge and understanding of product range. | [0] Candidate does not attempt to apply knowledge. | [0] No analysis of relevant examples. |

[8]

- (d) Discuss the arguments for and against Dyson Ltd. becoming a public limited company.

Becoming a Public Limited Company would mean that shares in Dyson would be traded on the Stock Exchange.

There are a number of arguments in favour of Dyson becoming a plc. These might include:

- it will allow Dyson to raise more capital if required. It is stated that the business is in the process of creating new jobs so this extra funding may be useful
- in such rapidly changing markets there is always the need to keep up with research and development so having access to extra capital might become critical for Dyson in the future
- may make it easier for the company to borrow money from banks and other financial institutions
- will improve the corporate image of the company in the eyes of consumers and possibly increase sales.

There are a number of arguments against Dyson becoming a plc. These might include:

- there are significant costs involved in going public. The process is likely to be very time-consuming and expensive
- the share floatation may not be successful due to unexpected external factors, leaving Dyson with huge costs to be met
- many aspects of company affairs would now have to be made public which may help competitors gain insight into the business
- the company would now have to concentrate more on keeping shareholders happy on a short-term basis. Sir James Dyson gives this as his main reason for not going public
- long-term research and development may suffer due to the requirement to pay good dividends to shareholders every year
- the business may become a target to be taken over
- loss of control for Sir James Dyson.

As part of their discussion, candidates should consider both positive and negative arguments and come to a final judgement.

Candidates are expected to evaluate throughout.

| | AO1 Knowledge and Understanding [3] | AO2 Application [2] | AO2 Analysis [3] |
|----------------|---|---|---|
| Level 3 | [3] Candidate demonstrates very good understanding of the arguments for and against. Candidate makes good use of specialist vocabulary when it is appropriate. | | [3] Very good analysis of arguments. |
| Level 2 | [2] Candidate demonstrates good understanding of the arguments for and against. Candidate makes good use of specialist vocabulary when it is appropriate. | [2] Candidate applies knowledge effectively. | [2] Good analysis of arguments. |
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[12]

- (e) Evaluate the advantages and disadvantages to a business such as Dyson Ltd. of becoming ISO 9000 certified.

In order to become ISO 9000 certified Dyson Ltd. must show that it has a clear quality policy that is implemented at all levels of the organisation.

The advantages to Dyson Ltd. of becoming ISO 9000 certified might include:

- it will indicate to potential customers that the products of the company are high quality so can lead to increased sales
- it will help to justify the high prices charged at the top end of the markets in which Dyson operates
- some retailers will only deal with businesses that are ISO 9000 certified so Dyson Ltd. must achieve this to trade with them
- the process of becoming certified will have made Dyson Ltd. a much more effective and efficient business
- as a result of improving quality in production Dyson Ltd. will make substantial savings from unsatisfactory or returned products
- it is a source of competitive advantage for Dyson Ltd.

The disadvantages to Dyson Ltd. of becoming ISO 9000 certified might include:

- achieving the award can be costly in terms of the management time and paperwork involved within Dyson Ltd./may involve finding new suppliers
- it involves considerable target setting and quantitative analysis so may be demotivating for employees within Dyson Ltd.
- it may slow down the production process as more procedures have to be followed and data analysed
- employees within Dyson Ltd. may become demotivated by the increase in administration which is involved.

As part of their discussion, candidates should consider both positive and negative aspects and come to a final judgement.

Candidates are expected to evaluate throughout.

| | AO1 Knowledge and Understanding [3] | AO2 Application [2] | AO2 Analysis [3] |
|----------------|--|---|---|
| Level 3 | [3] Candidate demonstrates very good understanding of advantages and disadvantages. Candidate makes good use of specialist vocabulary when it is appropriate. | | [3] Very good analysis of arguments. |
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| Level 3 | [4] Candidate gives a full evaluation of the arguments presented and comes to a final judgement. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner. |
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[12]

Total

40

80