

# Mark Scheme (Results)

## Winter 2010

GCE

### GCE Business Studies (6BS04)

#### Unit 4: Making Business Decisions

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## 4A: Making Business Decisions

### Marking Scheme

Question Number	Question	Mark
1.	<b>What is meant by the term 'stakeholder'?)</b>	
	Answer	Mark
	<p><b>Knowledge up to 2:</b> A definition of a stakeholder, i.e. <b>Stakeholder:</b> Any person, group or organisation with an interest in, or who may be affected by, the activities of another organisation.</p> <p>Note: 1 mark for partial explanation, but a valid extension or example will gain the second mark.</p>	1-2
2.	<b>What is meant by the term 'corporate culture' (see Evidence I line 1)?</b>	
	Answer	Mark
	<p><b>Knowledge up to 2:</b> A valid definition of corporate culture e.g. "the way we do things round here" or equivalent demonstrating understanding = 2 marks.</p> <p>Note: 1 mark for partial or vague definition (but a valid example lifts to 2 marks) Any valid extension such as Handy's power, role, task, person or plausible application to Brompton will also gain the 2<sup>nd</sup> mark.</p>	1-2
3.	<b>Explain how the Boston Matrix can contribute to Brompton's corporate planning.</b>	
	Answer	Mark
	<p><b>Knowledge up to 2:</b> Knowledge: a sketch of the Boston Matrix; a description would be acceptable (2 Marks)</p> <p><b>Application up to 2</b> Brompton identified as a problem child/question mark (1 mark each).</p> <p><b>Analysis up to 1</b> Brompton should advertise to convert the product to a rising star (1 mark); In current market Brompton lack a cash cow (1 mark) and need to acquire/ develop one to fund future development (1 mark) (though it could be argued that their niche position within the folding bicycle market removes this need (1 Mark).</p>	<p>1-2</p> <p>1-2</p> <p>1</p> <p><b>Total (5 marks)</b></p>

Question Number	Question	
4.	Briefly comment on the suitability of adopting a “power” corporate culture in helping Brompton to succeed in the folding bicycle market.	
	Answer	Mark
	<p><b>Knowledge up to 2</b></p> <ul style="list-style-type: none"> <li>• “Power” corporate culture, i.e. in this case based on the values of Andrew Ritchie.</li> <li>• Knowledge of Corporate Culture</li> </ul> <p><b>Application 1 mark</b></p> <ul style="list-style-type: none"> <li>• Ritchie is an engineer by training and a perfectionist.</li> <li>• Employees - need to identify with Ritchie’s near obsessive wish to “be the best”.</li> </ul> <p><b>Analysis 1 mark:</b></p> <ul style="list-style-type: none"> <li>• Culture will serve as a motivator or any similar development.</li> <li>• Could gain more by empowerment of employees</li> </ul>	<p>1-2</p> <p>1</p> <p>1</p> <p><b>Total (4 marks)</b></p>

Question Number	Question	
5.(a)	Using Evidence F, calculate the Gross profit margin for 2006 and 2007.	
	Answer	Mark
	<p><b>Knowledge up to 2</b></p> <p>Correct gross profit margin formula (2 marks). Knowledge of gross profit (1 mark)</p> <p><b>Application up to 2</b></p> <p>Correct calculation of gross profit margin 2006 (1786x100/4894=36.49%) and 2007 (2027x100/5278=38.4%).</p> <p><i>4 marks for correct answer without calculations (knowledge implied)</i></p>	<p>1-2</p> <p>1-2</p> <p><b>Total (4 marks)</b></p>

Question Number	Question	
5.(b)	Comment on the results of these calculations.	
	Answer	Mark
	<p><b>Application 2 marks:</b> Gross profit margin has risen slightly (1 mark); GPM has risen from 36.49% to 38.4%)</p> <p><b>Analysis 2 marks:</b> This may be due to either increased wholesale prices or control of manufacturing costs. Brompton depend on premium prices to cover above average manufacturing costs</p>	<p>1-2</p> <p>1-2</p> <p><b>Total (4 marks)</b></p>

Question Number		Question	
6.		<b>Assess the likely impact on Brompton Bicycle Limited of contingency planning for the US \$ falling against the £ Sterling.</b>	
Level	Mark	Descriptor	Possible Content
Level 1	1-2	Candidate shows knowledge of contingency planning and or exchange rate movement.	<ul style="list-style-type: none"> <li>• Understanding of contingency planning.</li> <li>• Contingency planning could include focusing marketing effort where exchange rates are more favourable.</li> </ul>
Level 2	3-4	Answers should be applied to Brompton.  Toolkit should be applied to context. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject).	<ul style="list-style-type: none"> <li>• Brompton operate overseas so are likely to have a contingency plan</li> <li>• The fall in the dollar is known as depreciation</li> <li>• Brompton's are made in UK and exported to the US (among other markets)</li> </ul>
Level 3	5-6	Candidate analyses the consequences of contingency planning for the US dollar falling for Brompton.	<ul style="list-style-type: none"> <li>• The price of Brompton in the US will rise if sterling wholesale price maintained.</li> <li>• The input costs for Brompton may also fall if imported materials and components are priced in US \$. This may impact negatively on sales (depending on price elasticity of demand).</li> <li>• USA currently only accounts for 5% of production, but there is unfulfilled demand.</li> <li>• Brompton operate at the premium end of the bicycle market and product is likely to be relatively price inelastic.</li> </ul>
Level 4	7-9	<p><u>Low Level 4: 7-8 marks</u></p> <p>Advantages and disadvantages explained and support some evaluation.</p> <p><u>High Level 4: 9 marks</u></p> <p>Expect to see convincing evaluative points with a conclusion.</p>	<ul style="list-style-type: none"> <li>• Alternatively, Brompton may choose to absorb the change in exchange rate, which will reduce the profit margin on US sales.</li> <li>• The US market is a relatively minor part of Brompton's current market and will therefore have a relatively minor impact on profitability.</li> <li>• With limited resources, there are higher priorities they may need to invest in.</li> </ul>

## Section B

Question Number	Question
7.(a) QWC i- iii	<p>a) 7(a)* Brompton Bicycle Limited are considering installation of a computer aided machine at a capital cost of £120 000. This would replace four trained workers, though as Brompton are currently expanding production, no redundancies are required. The company earn 7% p.a. on 12 month fixed term money market deposit and are assuming this can be renewed.</p> <p>Using <b>net present value plus one other</b> investment appraisal technique <b>and other evidence</b>, evaluate whether Brompton Bicycle Limited should proceed with this investment. (20)</p>

Level	Mark	Descriptor	Possible Content
Level 1	1-2	<p>Candidate shows knowledge and understanding of investment appraisal.</p> <p>To achieve a mark of 1 - 2 the candidate will have struggled to use business terminology legibly with frequent errors in SPG and / or weak style and structure of writing.</p>	<p>E.g. of the term investment, investment appraisal, NPV and / or alternative investment appraisal techniques such as average rate of return or payback.</p>
Level 2	3-6	<p>Candidate applies information in table to determine the net present value of the computer aided machine.</p> <p>Candidate uses some business terms but the style of writing could be better. There will be some errors in SPG. Legibility of the text could have been better in places.</p>	<p>See solution below.</p> <p><b>6 marks</b> for accurate calculation of DCF and one other technique.</p> <p>Maximum <b>5 marks</b> for accurate calculation of DCF.</p> <p>Maximum of <b>4 marks</b> if no DCF</p>
Level 3	7-14	<p><u>Low level 3: 7 - 8 marks</u> Weak analysis based on inaccurate data (OFR)</p> <p><u>Medium level 3: 9 - 11 marks</u> Analysis based on two techniques with minor errors in data.</p> <p><u>High Level 3: 12 - 14 marks</u> Strong analysis using DCF, one other investment appraisal technique and other evidence.</p> <p><i>The candidate uses business terminology quite well with reasonable to good spelling, punctuation and grammar.</i></p>	<p>Analysis based on other investment appraisal techniques or other factors except DCF - <b>cap at 7 marks maximum</b></p> <p>Net present value of £33,560 suggests that the investment is attractive.</p> <p>Payback period of 2 ½ years is relatively short and so also supports investment.</p> <p>Profit (£180,000 - £120,000) = £60,000 ARR <math>\frac{£60,000}{4} = £15,000</math> p.a. which is a large proportion of the initial investment (12.5%)</p>

Level 4	15-20	<p><u>Low Level 4: 15 - 16 marks</u> Evaluation is made based on one piece of data (arguments for and against).</p> <p><u>Mid Level 4: 17-18 marks</u> Evaluation is made based on two pieces of data (arguments for and against).</p> <p><u>High Level 4: 19 - 20 marks</u> Evaluation is made based on two pieces of data and additional qualitative evidence (arguments for and against).</p> <p><i>Candidate uses business terminology precisely and effectively with good to excellent spelling, punctuation and grammar</i></p>	<p>All quantitative data suggest the investment should proceed. Stronger responses will also, e.g. appreciate the limitation in the net cash flow or using a 7% discount rate.</p> <p>Uses other evidence e.g. Brompton may be encouraged to go ahead with investment as government initiatives encourage cycle use. Opportunity cost of interest rate changes may affect decision to invest.</p> <p>On balance, Brompton should probably proceed to install the machine, though the return is less than sparkling. The machine should help reduce bottlenecks (Stock/WIP turnover is very slow) and improve productivity. There seems to be unfulfilled potential demand for their product. The best answers will discuss a good range of points such as these and offer a balanced and realistic view. Please note that many other points are possible.</p> <p>Alternatively, weakness in Brompton position or unreliable estimates could support negative conclusion.</p>
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YEAR	7% Discount Factor	Net Cashflow	DCF
0	-	(£120,000)	(£120,000)
1	0.935	£50,000	£46,750
2	0.873	£50,000	£43,650
3	0.816	£40,000	£32,640
4	0.763	£40,000	£30,520
NPV			£33,560

Question Number	Question		
7.(b) QWC i-iii	Evaluate Brompton's decision to base its manufacturing in West London.		
Level	Mark	Descriptor	Possible Content
Level 1	1-2	<p>Candidate shows knowledge of location factors OR manufacturing</p> <p>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text</p>	<ul style="list-style-type: none"> <li>• Transport links, reduced costs of distribution</li> <li>• Proximity to markets</li> <li>• Proximity to labour markets</li> <li>• Links with local area make it difficult to move</li> <li>• Tradition</li> <li>• Manufacturing means to construct a product from components or raw materials</li> </ul>
Level 2	3-5	<p>Candidate applies location factors OR manufacturing to Brompton</p> <p>Toolkit use may be limited.</p> <p>The candidate may use some business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</p>	<ul style="list-style-type: none"> <li>• Brompton originates in the UK and still sells a large proportion of its bikes in its home market</li> <li>• Brompton has invested heavily in training its UK workforce (Evidence B).</li> <li>• London is a large, wealthy market consisting of many commuters who use public transport</li> <li>• London is a large market for products and provides opportunities to recruit staff</li> <li>• Brompton gets its name from the part of London from where it originates</li> </ul>
Level 3	6 - 15	<p><u>Low level 3 6-8 marks</u> Candidate <b>attempts</b> to analyse the decision based on the Causes/Costs/Consequences of this decision.</p> <p>Contextual element of the analysis may be weak.</p> <p><i>NB - candidates making lists of points are limited to achieving 8 marks.</i></p> <p><u>Mid Level 3 9-11 marks</u> Candidate <b>achieves</b> the analyses of Causes/Costs/Consequences of Brompton's decision.</p> <p><u>High level: 12-15 marks</u> Candidate <b>very convincingly</b> analyses the Causes/Costs/Consequences of</p>	<ul style="list-style-type: none"> <li>• Evidence F points the way that wage costs in the UK are considerably higher in the UK than many other European countries.</li> <li>• Locating in West London gives the company access to the latest trends in design and technology - competencies that cannot be out-sourced easily</li> <li>• Brand status is a key asset and the British heritage is a USP which enables Brompton to command premium prices, particularly in the US and far east.</li> <li>• UK has (comparably) good transport links and West</li> </ul>



		<p>Brompton's decision.</p> <p>Candidate will use business terminology well / style of writing is appropriate to the question / reasonable to good SPG</p>	<p>London is near to a major commuter market.</p> <ul style="list-style-type: none"> <li>65% of sales are to Europe and the Far East (Evidence B) and Taiwan has a low wage structure (Evidence A). Other costs are also likely to be higher in the UK.</li> <li>Butler Adams has already increased outsourcing of non-core manufacturing elements. .</li> <li>Proximity to market is a plus point leaving the UK operation to focus on the European market.</li> <li>Flexible increase in capacity is needed.</li> </ul>
Level 4	16 -30	<p><u>Threshold level 4: 16-18 marks</u> The candidate <b>attempts</b> to make Evaluative comments (arguments for and against)</p> <p><u>Low level 4: 19-21 marks</u> The candidate evaluates by looking at a <b>limited number</b> of arguments for and against the decision to locate manufacturing in West London.</p> <p><u>Mid level 4: 22-25 marks</u> The candidate evaluates by looking at a <b>wide range of arguments</b> for and against the decision to locate manufacturing in West London</p> <p><u>High level 4:26-30 marks</u> Balanced, contextualised <b>conclusions</b> based on sound evaluation of the Market, Objectives, Product, Situation that applies to Brompton.</p> <p>Answer is clear, and the candidate makes good use of terminology and toolkit. Candidate uses business terminology fluently with good spelling, punctuation and</p>	<ul style="list-style-type: none"> <li>Many of the processes involved in the Brompton's manufacturing can be out-sourced, with the 'core' remaining in the UK and helping Brompton to keep its niche appeal</li> <li>The Corporate Culture prides itself on not using an assembly line and 'hand-building' the bikes</li> <li>This decision though will inevitably lead to Brompton remaining a niche product - competition on the basis of price will not be possible with the current arrangement</li> <li>The nature of the product (Evidence F lines 32-37) show that there are many features of the Brompton that will not be compromised upon therefore location in the UK is probably best</li> <li>However lack of patent protection is a concern (entry barriers are already low) with only the brand copyrighted and compromising quality could dilute the brand value. There is little evidence of innovation and a partner could bring ideas</li> <li>More able candidates may accept the need to manufacture in the UK, but could question the specific</li> </ul>

		grammar.	choice of West London due its inevitable high land/labour costs
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### Assessment objectives and Specification coverage

Question No.	Knowledge	Application	Analysis	Evaluation	Total	Specification Coverage
1	2				2	4.3.1b
2	2				2	4.3.1c
3	2	2	1		5	4.3.1c
4	2	1	1		4	4.3.1d
5(a)	2	2			4	4.3.3a
5(b)		2	2		4	4.3.3a
6	2	2	2	3	9	4.3.2f
7 (a)	2	4	8	6	20	4.3.2b
7 (b)	2	3	10	15	30	4.3.2f
<b>Total</b>	16	16	24	24	80	
<b>Total Required</b>	16	16	24	24	80	

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