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Examiners' Report

June 2011

GCE Business Studies 6BS03 01

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# Introduction

## Unit 3 international Business – 6BS03/6EB03 – June 2011

In some respects this exam showed an improvement over the previous ones. Many candidates were well prepared and had clearly brought the benefit of wider reading and study into their answers, showing a real understanding of the topics. Yet elsewhere, the same old mistakes and errors were being reproduced, with a couple of questions in particular that many candidates chose to misinterpret, sadly to their detriment. On Q9 many candidates appeared to have no idea what a global marketing strategy might be. As in previous exams some candidates weakened their responses by failing to apply the terms and theory they had been taught, preferring instead to use generalities and non-specialist language. This does little to convince examiners that answers deserve high reward. After two years of study candidates really ought to be able to use the correct terminology and apply concepts and theories as necessary. Describing the Indian market as “mega good”, or saying that a business “will do well”, or “that things look good” is unlikely to gain marks for analysis. Other candidates indulged in needless repetition or wandered off the point. As ever, the key is to write succinctly, relevantly and without repetition. The main reasons for otherwise able students underachieving are not heeding command words and not reading the questions carefully enough. Command words are still being ignored by a sizeable number of students. Their scripts often showed key instructions such as ‘assess’ as being underlined or highlighted which, unfortunately was then ignored in the answer! Significant numbers of students missed out on marks because they did not answer the question that was set. Specific instances will be detailed later, but why this seems to happen so frequently is a bit of a mystery.

### Examiner’s tip

There are two basic styles of question used in this paper. Q1, 2, 5 & 6 do not contain evaluation marks but are marked on the assessment objectives of knowledge, application and analysis.

·*Knowledge* – means telling the examiner a fact or reason for something, it is something the student knows or has learnt.

·*Application* – means that you use that knowledge in the setting (context) of the question. This may mean applying some of the evidence from the source material or their own knowledge.

·*Analysis* – is best seen as a consequence of something happening.

E.g. Q5 asks for reasons for joint ventures for companies entering the Indian Market. “McDonalds may have entered a joint venture to gain valuable information about the Indian market (*knowledge*). Many Indians do not eat beef at all, and many others are vegetarian (*application*). Knowing this in advance will help McDonalds adapt their products in advance and avoid costly mistakes and poor sales (*analysis*).” Q3, 4, 7, 8 and 9 are levels of response questions with *evaluation* as well as the other objectives. *Command words* are so important. When you see ‘Assess’ and ‘Evaluate’ at the start of a question they are telling you that there are some evaluation marks to be had. How many there are depends on the question. Have a look at the mark scheme and familiarize yourself with where these marks are awarded, if you are unsure, ask your teacher.

·*Evaluation* means making a judgement about something. It may entail looking at the advantages and disadvantages or making a choice between alternatives. Good evaluation will also involve reaching a balanced conclusion.

*Evaluation* does not have to be complex or difficult. Just remember that if you are being positive about something, there will always be a drawback you could mention. If it all seems like doom and gloom there will always be a silver lining somewhere. Remind yourself to use phrases such as, 'However...' or 'On the other hand...' as a prompt to evaluate. It is usually the evaluation marks that separate the good candidates from the rest. When the examiner looks at a response they will look for evidence of the higher skills of *analysis* and *evaluation*. If there is *analysis* it will be awarded a L3 mark, if in addition, it has *evaluation* then it will gain a mark from L4. The actual mark within those ranges will depend upon the quality of *analysis/evaluation*. But the answer must also have *application* (context). There is an instruction in the mark scheme ...

N.B. If analysis but no context restrict to bottom L3.

If evaluation but no context restrict to top L3

This means that students, who simply repeat textbook or generic answers that could apply to any situation, are missing out on potential marks.

So what is context?

If an answer has context it cannot be applied to another setting. For example Q6 asked for reasons as to why Yum Brands had decided to expand in the Indian market. "Yum Brands decided to expand into the Indian market in order to increase sales revenue and profits".

– This statement would be equally valid if the word *Spanish* is substituted for *Indian* and therefore has no context. "Yum Brands decided to expand into the Indian market, where GDP increased by 10.4% in 2010, in order to increase sales revenue and profits". – This time we cannot substitute the word *Spanish* for *Indian* because it would not be true.

Therefore the answer has context and would be rewarded as above.

## Question 1

This should have been a straightforward introduction to the paper and is a main part of the specification. Most students were able to identify two reasons but often failed to get the application marks. In some cases the reasons given were identical and just talked about protecting domestic industries.

- 1 Briefly explain **two** possible reasons why tariffs previously existed between the ASEAN countries and China.

Tariffs are taxes on imports, Members of ASEAN and China will have placed these tariffs so the countries don't lose out on cheaper goods entering the market and ~~eliminating~~ being cheaper than the existing product being produced by the country itself. An example of this is textiles which is exported from Thailand, this could be cheaper than China and could ~~impact~~ have an effect on China's textile industry. Therefore a tax is added to the exports and this therefore reduces the risk of this occurring. Another reason is that tariffs raise revenue for a country.



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Examiner Comments

An excellent first reason with good application gets 3 but the second reason just identifies a reason and gets 1 mark. Total marks 4.

1 Briefly explain **two** possible reasons why tariffs previously existed between the ASEAN countries and China.

A tariff is a tax, which is designed to increase the cost for an imported good to reduce the demand for that good. Tariffs are often put in place to protect infant industries and also to gain government revenue.

Tariffs protect infant industries for example in this case in China, by increasing the costs of them by adding a cost to import this forces businesses to increase the price charged by them.

If consumers can buy cheaper of the same product they will, this protects the infant industries in China as if they are cheaper as more people will buy that product and not the imported more expensive product. The tax also generates government revenue, which can be used to improve infrastructure and standard of living of the Chinese economy by improving health care and education. (Total for Question 1 = 6 marks)



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### Examiner Comments

This response identifies two reasons in the first paragraph 'protecting infant industries' and 'raising government revenue', 2 knowledge marks gained here. What follows develops what happens to domestic industries and what the revenue is used for, 2 analysis marks gained here. Unfortunately just using the word China is not enough to gain the application marks. Total marks 4.



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### Examiner Tip

If the candidate had added something like 'protecting infant industries that are unable to match the comparative advantage China has in manufacturing...' then a mark for application would have been added



## Question 2

Generally not a well answered question. The topics of international trade, trade liberalisation and trade blocs were not always well understood. Many students confused imports with exports which sometimes made it hard to follow arguments. Others seemed to think that the UK had become part of ASEAN. Elsewhere candidates interpreted the question as being about the growth of China rather than the specific context of the question and the growth of ASEAN. Others still, looked at the effects on the UK economy rather than UK businesses as per the question.

2 Analyse **two** ways that the expansion of ASEAN could affect UK businesses.

One way that the expansion of ASEAN could affect UK businesses is that China will now look to Southeast Asian Nations instead of places like the UK simply because they can access materials at a cheaper cost therefore increasing the size of their profit margins on certain products. Also because the UK cannot afford to drop the price of its materials and goods ~~etc~~ because of the recession this means they cannot compete with the cheap prices from ASEAN countries. Another way the expansion of ASEAN could affect UK businesses is that because ASEAN countries are getting products and services for cheaper prices this means their businesses will become more profitable therefore these companies and entrepreneurs that are looking to provide foreign direct investment will be more likely to invest in a country with links to China's established economy rather than a UK business with fewer established trading links. (Total for Question 2 = 8 marks)



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Examiner Comments

Two reasons for 8 marks and so 4 marks each. First reason with application and good analysis gets 4 marks and the second reason is also valid applied and has good analysis and gets 4 marks. Although there are quibbles with one or two parts it does meet the assessment criteria and is duly rewarded. Total marks 8.

### Question 3

Again, not a well answered question. Although most candidates could offer an explanation as to what specialisation was, many then interpreted it as a question about free trade and ignored the question set. Of those who had looked at the benefits, a sizeable number ignored the command word and failed to assess, thus limiting their marks for an otherwise good answer.

- 3 Assess the likely benefits of specialisation for ASEAN countries, such as Malaysia, which specialises in palm oil.

Specialisation is where a country produces what it is efficient at producing. Evidence A states that Malaysia exports palm oil, likely because it is efficient in producing it because of its tropical climate. Specialisation could bring many benefits to ASEAN countries, as the liberalisation of trade could mean that Malaysia could export palm oil to a country such as China who cannot specialise in such a product. Similarly, China could export products that they're efficient in producing e.g. consumer goods and car parts (Evidence B, line 2); to other ASEAN countries such as Malaysia. This would benefit both countries, because overall output will be higher for both countries due to their absolute advantage. China if it wanted to, could produce palm oil - albeit at a higher cost and by using more resources which could be used elsewhere in consumer goods and car parts.



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**Examiner Comments**

A very good answer showing good use of context and analysis but sadly has not evaluated at all and so cannot get past L3 and 6 marks



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**Examiner Tip**

If the candidate had added something like 'However, specialisation has its risks, if a substitute for palm oil is developed then...' they would have been into evaluation and L4. Only a few marks separate each grade boundary so it is crucial to avoid lapses like this.



## Question 4

Most candidates did well here, usually achieving at least a L3 response. As a result there was often not much difference between the weaker and stronger responses. The evidence offered ample examples which students were able to incorporate into their responses, contrasting increased opportunities for ASEAN countries with the potential threat of China's comparative advantage in manufacturing. The most common error amongst those who did not do as well was to answer the question from the point of view of China rather than the ASEAN countries, showing the importance of carefully reading the question before starting to write.

## Question 5

Once again two reasons were needed here and the context was specific i.e. McDonalds and the Indian market. The most common reason given was for local knowledge in entering a market with a very different culture and characteristics. Other responses included sharing risk, sharing cost and complying with governmental regulations. The main reasons for not doing well here were to miss out the context and not develop the reasons enough.

5 Explain two possible reasons McDonald's formed a joint venture for the Indian market.

A joint venture is expanding in a partner ship with another country. McDonalds may have formed a joint venture to reduce costs to run as they are only partly funding the expansion. A second reason is that from the joint venture it may gain more knowledge of the market from the other companies which would aid their trading.



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**Examiner Comments**

The response does show knowledge of two reasons for a joint venture but that is as far as it goes. The reasons are not in the context of the Indian market (application) and the consequences (analysis) of sharing costs and using local knowledge are not explored. Therefore only 2 marks awarded in total.

## Question 6

As in the previous question the context was specific and those candidates who did not say something about the Indian market did not gain full marks. Nevertheless most did well here identifying two reasons including variations on a saturated home market, extending the product life cycle, increasing sales and profits and first mover advantage. Less convincing were those who cited lower costs, ignoring the fact that prices would be correspondingly lower as well.

6 Analyse **two** possible reasons for Yum Brands' decision to expand in the Indian market.

One reason for Yum Brands' decision to expand in the Indian market is because it ~~is~~ <sup>has</sup> an emerging economy. Although it ~~is~~ has the eleventh largest economy in terms of ~~the~~ gross domestic product in the world, it's just rapid growth makes it an enticing economy for ~~the~~ <sup>for companies</sup> such as Yum Brand to go into. Also Yum Brands' ~~reason~~ moved to the Indian market because of the saturation of this particular market in the USA. Because it has such a strong market share it could not expand any more as a company in the country therefore by going to India not only does it have the opportunity to take control of that market but also become an iconic company and brand worldwide.

(Total for Question 6 = 6 marks)



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**Examiner Comments**

A good response. The first reason is valid, clear and applied to the Indian market, but lacks analysis, therefore only 2 marks awarded here. Second reason is valid and also applied, the analysis that follows is a little shaky but is given benefit of the doubt and got all 3 marks. 5 marks in total.

6 Analyse **two** possible reasons for Yum Brands' decision to expand in the Indian market.

One of the main reasons for Yum Brands' decision to expand into the Indian Market, was to extend their product life-cycle, due to the saturation of the market (Evidence A, line 4) in the USA. The emerging Indian market is highly important for Yum Brands due to its innovative style, thus creating a growing demand in India, highlighted in its rapid ambitions for expansion in Evidence A. Furthermore, the saturation of the US market may have been caused by there being too much competition. The Indian market is likely to be less competitive in terms of 'fast food', however, cultural differences should be taken into account, (Total for Question 6 = 6 marks) as ~~they~~ consumer tastes + preferences will differ from those in the U.S.



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**Examiner Comments**

A good response. The first reason is valid, clear and applied to the Indian market, but lacks analysis, the candidate has not said what this 'growing demand' will mean for Yum brands, therefore only 2 marks awarded here. Second reason is valid and also applied, but again, no analysis. 4 marks in total.



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**Examiner Tip**

On these sorts of questions always check that you have:

- 1) Done what the question has asked of you e.g. given **two** reasons,
- 2) Stated a reason
- 3) Applied it to the context
- 4) Explained a consequence or development of your reason

## Question 7

Most students were able to identify a pricing strategy and put it into the context of India where incomes and prices in general are lower than western markets. Having said that, the majority of students failed to read the question carefully enough and proceeded to assess the pricing strategy itself rather than "...the importance of an appropriate pricing strategy, compared to other considerations..." (my italics). This meant that they did not gain any marks for evaluation. Those who did contrast the importance of price with for example, that of getting the product right, were duly rewarded.

- 7 Assess the importance of an appropriate pricing strategy, compared to other considerations, for a company such as Yum Brands when entering a new market such as India.

Pricing strategies ~~is~~ is one of four aspects of the marketing mix, involving valuing a product at ~~the~~ ~~market~~ at a price which will have the most benefits for the business and consumer. The pricing strategy is vital in a new market, as consumers may be unaware of the products you are trying to sell, meaning that pricing them too high will result in a low effective demand, meaning low sales, and pricing them too low will result in ~~the business~~ consumers thinking that the product is of poor quality, meaning low sales and profits. As well as this the manner which Yum brands price their goods now will be judged against ~~future~~ ~~products~~ whether consumers purchase future products. However, considering other elements of the marketing mix, the product is equally, is not ~~are~~ appropriate as is the consumer ~~do~~ not want or need the good.

than the pricing strategy of (Total for Question 7 = 8 marks)  
~~the price~~ irrelevant as there will be no demand  
regardless. Also is promotion is wrong, such as a  
mis-translated message in an advertising campaign  
the ~~price~~ price could also be irrelevant.  
In conclusion, pricing the product correctly holds  
real significance for Yum brands as it ~~is~~ <sup>determines</sup>  
demand but ~~not~~ <sup>other aspects</sup> such as product and  
position are equally as important.



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**Examiner Comments**

An example of a perfectly good but generic answer. There is no context here at all and despite the evaluation, it is limited to L3 and 5 marks.



7 Assess the importance of an appropriate pricing strategy, compared to other considerations, for a company such as Yum Brands when entering a new market such as India.

There are many different pricing strategies which Yum Brands could have used when entering the Indian market. For their business to have a positive reaction from the India, they had to choose this correctly.

With products' <sup>(raw materials)</sup> Labour and land all being a lot cheaper in India in comparison to USA, Yum Brands can set their products significantly cheaper in India. With sandwiches being available from just 25 rupees, it makes the business appeal to all of the population in India, not just the wealthy. Starting in their products cheap, hopefully appeals to the population to try it and get the brand name known. Once the brand is known and they have loyal customers who will keep going to their restaurants, they could increase their food prices gradually.

Also, the low prices could make competition struggle, giving them more market share.



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**Examiner Comments**

This is an example of a response that uses context well but is just about price. It does not answer the question and consider the importance of price in relation to other considerations. This answer also gets 5 marks.



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**Examiner Tip**

These otherwise able students failed to gain more marks because they did not consider the question carefully enough. Always take time to read the question thoroughly before you start and while you are writing keep checking that you are sticking to it!



## Question 8

Most candidates were able to describe some negative impact on local businesses, usually in terms of local firms exiting the market. Better responses would examine the likelihood of this happening, such as local restaurants might be catering for different market segments or India's expanding economy and rising middle class incomes increasing the demand for eating out. Others looked at local businesses outside the restaurant business such as suppliers of potatoes or building firms. Evaluation in context was duly rewarded and some candidates scored well here. Once again, what let many evaluative responses down was the lack of context; many answers could have been about any expansion, anywhere, in any country. With 5 marks out of the 10 for evaluation this was a costly mistake to make.

8 Assess the likely impact on local businesses of continuing expansion by western restaurant chains in India.

Globalisation is the movement of goods, people, capital, and materials around the world as economies become more integrated.

For Indian food outlets such as restaurants, they may see a decline in market share as a result of the increase in competition from foreign restaurant chains. This may result in the Indian businesses having to reduce prices in order to maintain market share, reducing profits. However differences in types of food such as fast-food from western firms and proper restaurant meals from domestic firms, may result in very little impact on Indian restaurants as their products are aimed at a different type of consumer.

For Indian <sup>food processing,</sup> businesses ~~in general~~ western food companies could hold great opportunities as increased vertical integration could take place through a merger or joint venture. This way Indian food processors could supply ~~the~~ western food chains with the materials

~~to produce~~ such as pre-prepared food or utensils  
for western companies to use. Economies of scale  
(Total for Question 8 = 10 marks)  
could occur as a result, giving the business a  
competitive advantage as a result.  
In conclusion, the expansion of western restaurant  
chains in India could result in lower sales for Indian  
restaurants.



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#### Examiner Comments

The first paragraph has no relevance to the question and is just a waste of the candidate's time. The second paragraph is good, it goes straight into analysis and makes good use of context, and this is already a L3 response. It concludes with some relevant evaluation and moves up to a L4 response. The final section develops the evaluation and again makes good use of context, finishing with a brief conclusion. This is a good example of a high L4 answer and was awarded 9 marks.



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#### Examiner Tip

Questions 8 & 9 have a lot of marks for evaluation (5 and 8 respectively). Make sure that you do evaluate and use suitable context.

+ joint ventures

- economies of scale  
low costs

8 Assess the likely impact on local businesses of continuing expansion by western restaurant chains in India.

Western restaurant chain expansion in India can be detrimental on local businesses whom do not gain from such gains as economies of scale and ~~and~~. This means that local businesses cannot afford to ~~be~~ keep up with the competitive pricing and could be put out of business. The western chains also compete against each other sometimes ~~dumping~~ <sup>for</sup> selling below their marginal costs, which affects local businesses as there is very little market for normal goods and services in India. On the other hand the opportunities of joint ventures and mergers are good for local businesses as they have the local inside knowledge. Quite often western chains may have local partners whom can local businesses and can explain the cultural difference in the area and become part of the business. Conclusively the opportunities are in mergers or takeovers or partnerships whereby they work together closely and can gain from business profits ~~themselves~~ and being paid for their knowledge. However threats are posed by the western giants and their undercutting strategies.

(Total for Question 8 = 10 marks)



### ResultsPlus Examiner Comments

By contrast this candidate has failed to provide any context. This answer could be about any business and any country. Mentioning 'western chains' and 'India' tells us nothing about the nature of the restaurant business or the local businesses in the Indian market. So it is limited to top of L3 and 5 marks only.



### ResultsPlus Examiner Tip

Context requires you to do more than just repeat terms used in the question. You must use additional information from your own studies and reading or from the source material and it must be relevant to the question.

## Question 9

Unfortunately this question proved problematical for many candidates who did not seem to have any understanding of what a global marketing strategy actually is. Some talked about the pros and cons of expanding overseas, some saw it as meaning market research, others still saw it as a debate as to whether it was a good idea for McDonalds to move into India. Consequently they struggled to gain few, if any, marks. Better responses offered examples of businesses where elements of the marketing mix were the same on a global basis, such as Apple, Ferrari, and LVMH, who reaped the benefits of economies of scale and went on to argue that a global marketing strategy was not only possible but also desirable in these cases. They then contrasted that with the fast food industry, where such a strategy is neither desirable nor possible, and elements of the marketing mix have to be adapted to suit local conditions. The increased costs of localisation were weighed up against increased revenues. The best answers made good use of context, using McDonalds as an example of a business mixing some elements of a global marketing strategy, such as the ubiquitous Golden Arches, with localised strategies in order to gain maximum benefit.

\*9 Discuss the extent to which a global marketing strategy is possible or desirable for a multinational company such as Yum Brands or McDonald's.

(15)

A multinational company is ~~the~~ who ~~is~~ a business who operates internationally, all around the world. Global Marketing is always going to be difficult for any multinational company, however even more so for a company such as McDonalds. This is because McDonalds have a loyal brand name, who most people around the world know. However, due to many different cultures, McDonalds will have to change their products to fit that specific market, without changing it too much that they lose the 'McDonalds look' as that could then end in them losing customers, ~~and~~ having a negative impact.



Both Yum Brands and McDonalds when setting up markets in India, will find it different to how they would in USA. The look of the restaurants, they want to be similar, so they ~~keep~~ however they also have to apply the look to <sup>the</sup> cultures which they're in, meaning it changes. 'Think Global. Be Local' is an excellent way in which both McDonalds and Yum Brands have to think.

However, the marketing strategies which both multinational company's will ~~not~~ use,

I believe ~~it~~ won't work if they keep it the same globally. I think they have to change it depending on the ~~market~~ country which they're marketing in.

In conclusion I think global marketing is not possible for ~~countries~~ multinational company's such as McDonalds and Yum Brands because with cultural differences, <sup>meaning</sup> ~~involving~~ different products in different countries, would make it too hard to market globally the same billboard, t.v advertisement etc. I believe they have to differ for different ~~countries~~. (Total for Question 9 = 15 marks)



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#### Examiner Comments

In comparison to many responses this was quite good. There is a clear understanding that it is not always possible or desirable to have a global marketing strategy. The answer is in context and there is evaluation taking it into L4. A conclusion rounds off the answer and it was awarded 11



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#### Examiner Tip

A conclusion can increase your marks as long as it is relevant. Try to draw the strands of your argument together and address the question again.

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