

Examiners' Report
June 2012

GCE Business Studies 6BS04 01

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Introduction

For the second examination in this series the featured business was the Japanese multinational car manufacturer, Toyota. The focus of the pre-release material and many of the questions were the events and issues surrounding Toyota's safety concerns in 2010 and the resulting recall of many of its products. This topic area provided a good basis for questions on a range of specification concepts in the unit to be examined. Teachers would have been able to access a range of supporting documents, video clips, and additional information to support the preparation of their students for this examination.

As with previous series, the paper followed the format of shorter knowledge and application based questions, progressing to an evaluation question at the end of section A. A case study example such as Toyota with its interesting recent history provided a wide scope for examining topics from across the unit specification. Section B, as will always be the case, asked 'open-ended' questions intended to prompt students to explore broad issues of Corporate Strategy. In past series the calculation of financial ratios had been limited to some of the shorter questions in part A; this series a broader question on this topic area was asked, giving candidates the opportunity to show their skills of financial analysis and evaluation, as well as the broader qualitative factors that influence financial judgements.

Successful candidates in this paper:

- Stuck closely to the requirements of the questions posed – there is a danger with examinations based on pre-release material that candidates are tempted to answer questions they have practiced or been prepared for.
- Answered in the context of Toyota and its markets. They were able to recognise the situation the business found itself in and the important factors such as its culture and history that had a large influence on the way that Toyota makes its business decisions.

Less successful candidates in this paper:

- Did not show a sufficient understanding of important specification content and terminology. Specific examples included: 'competitive advantage'; 'decision trees'; and 'corporate culture'. Glossaries of key terminology either devised by teaching staff or candidates through independent research are a good way of securing this knowledge at all stages of the examination preparation.

Question 1

This question required candidates to show knowledge of the important concept 'competitive advantage'. As in previous series this question only requires candidates showing the assessment objective of 'knowledge' in order to achieve the two marks; application to Toyota is not required.

1 What is meant by the term 'competitive advantage'?

The term competitive advantage simply means when a firm has more qualities that ~~are~~ differentiate the firm from its rivals e.g. that of Toyota is their reputation for high quality cars which includes reliability, sales and build quality (evidence in line) (Total for Question 1 = 2 marks)



ResultsPlus Examiner Comments

This response clearly defines what competitive advantage means, and sticks closely to it being a feature of the business. Although not necessary, the candidate relates the definition to Toyota - an alternative way of securing the second mark, particularly if the definition is a little vague. 2 marks awarded.



ResultsPlus Examiner Tip

Make sure that you are clear about the main business terms in the unit specification. 'Competitive advantage' is an important one across a number of topics in the unit.

Question 2

This question also required candidates to show knowledge only - this time of the investment appraisal technique Average (accounting) Rate of return. Although it was not required to write the calculation/formula in order to gain two marks, many candidates used this approach and were able to achieve two marks in this way.

Toyota undertakes investment appraisal and as a result forecasts Average Rates of Return.

2 What is meant by the term 'Average Rate of Return'?

Average Rate of Return (ARR) is the amount of return on each year investment in each year, it is expressed as a percentage and the ~~usually~~ higher the figure the better.

$$\text{ARR} = \frac{\text{Average Profit/Cash Flow}}{\text{Investment/Cost}} \times 100$$



ResultsPlus

Examiner Comments

This candidate attempts a definition using both sentences and the calculation for Average Rate of Return. They do so successfully, achieving two marks. The important feature of this answer is that the term 'average profit' is used to show a secure understanding of this investment appraisal technique.



ResultsPlus

Examiner Tip

As well as understanding how to make the calculations required to undertake investment appraisal, make sure that you understand what the technique is showing a business. In this case it is how much on average the business estimates it will receive each year of an investment, as a percentage of the investment cost, taking into account the investment cost too.

Question 3

The key to this question was candidates understanding and answering about how different stakeholder groups were affected. Here there were marks for knowledge of stakeholder groups; application to Toyota; and analysis of how these effects might exist.

- 3 Explain how **one** stakeholder group might be affected by Toyota's decision to recall some of its cars.

Stakeholders are groups of people who take interest in a firm's business decisions. They are affected either indirectly or directly by how the firm performs. For Toyota one main group of stakeholders affected by the recall are the consumers. Consumers confidence in Toyota's brand is likely to fall with the defects in the cars. Toyota that was previously synonymous to quality failed to deliver reliability and ~~quality~~ high quality goods. Consumers are likely to ~~switch~~ switch to other alternatives in the market like Mazda. (Total for Question 3 = 4 marks)



ResultsPlus

Examiner Comments

This response achieves four marks. It does so because the candidate clearly shows knowledge of what stakeholders are in general; identified accurately consumers/customers as examples related to Toyota (later made clearer with reference to competitors); and then goes on to make two analytical points. Also the candidate only analyses one stakeholder group - this is clearly required in the question.



ResultsPlus

Examiner Tip

Make sure you read the question carefully. Sometimes instructions will be written in bold (in this case **one**) because that is the requirement of the question. In this example no reward could be gained by writing about more than one group.

Question 4

This question required candidates to suggest possible responses in terms of strategy. One mark was given to knowledge of corporate strategy, with one for application to Toyota and/or the government car scrappage scheme. As with question 3, candidates were only required to analyse one possible effect and did not gain reward for suggesting more than one effect.

- 4 Explain **one** possible effect of the car scrappage scheme on Toyota's corporate strategy in the UK (see Additional Evidence H).

Corporate strategy is the how the organisation, in this case, Toyota will achieve its aims and objectives. For example, an aim of ~~the~~ Toyota could be to maximise ~~profits~~ ^{sales}. The strategy they may use is pricing their cars at a low cost. But due to the scrappage team which removes £2000 off the price of a new car, customers may find this to be attractive and possibly buy a car. And according to evidence ~~by~~ the demand for cars did rise therefore their strategy to price cars at lower cost may not be needed as £2000 is already being deducted plus it's an effective way to attract customers.



ResultsPlus Examiner Comments

Many candidates found this question challenging. There are two specific aspects that require accurate responses: firstly, candidates needed to show knowledge of corporate strategy - some were confusing 'objectives' with strategy; secondly, candidates needed to show how the scrappage scheme might affect Toyota's strategy not simply the business. This response does all of those things. Four marks achieved.



ResultsPlus Examiner Tip

Make sure that you know the difference between 'objectives' (what a business is trying to achieve) and 'strategy' (how they plan to achieve those objectives, usually over the long term).

Question 5

The Boston Matrix is often seen as an accessible part of the specification and as a result most candidates show a good knowledge of the concept. This question required candidates to relate the Boston Matrix to corporate planning - in other words to explain the uses the concept could have to Toyota. The four application marks at Level 2 of the mark scheme show the importance of applying the Boston Matrix to the Toyota range of cars.

Toyota has one of the widest product portfolios of any car manufacturer, from global bestsellers to expensive luxury models.

5 Analyse how Toyota might use the Boston Matrix to contribute to its corporate planning.

Boston Matrix is a method used to help guide businesses when making decision based on product and market. The Boston Matrix identifies 4 major types of products the star, cash cow, dog and problem child. The star is a product with lot of potential and is seen to have much growth. Cash cow ~~are~~ ^{are} products which provide a business with a steady income as is a business main source of income. Dog is a product which is on the decline in a slow market and problem child is a product which has many costs to be left or survive in a market.

Toyota which is a global company has a large product portfolio and each product can be identified through the Boston matrix. Toyota in its range has many cash cows such as ~~the~~ ^{the} Camry and Corolla's these products bring in the most amount of income to the business. This income is what is been used to develop stars and cater to problem child's. Toyota has recently ~~to~~ gone through bad publicity due to the sticky pedal and their products have

also been accused of being boring. This could put their cash cows in trouble as they could start to decline reducing Toyota's main income. This may lead to Toyota having to plan extension theories to help revive their products.

Toyota also doesn't possess many stars the pros which could have been seen as a star wouldn't no longer as the product has had safety issues and the arrival of substitutes also hinder it's status. Toyota needs to look at their product portfolio and plan ahead as if their current cash cows fail they would lose their main source of ~~revenue~~ ^{income}. They also need to develop stars as these products along the product life cycle eventually become cash cows.



ResultsPlus Examiner Comments

This candidate shows a good general understanding of the Boston Matrix to begin with in their response. They then go on to apply the matrix to Toyota, its situation, and its product range e.g. 'due to safety problems, cash cows may no longer remain as such'. The analysis comes towards the end of the response where the candidate explains how Toyota could use the Boston Matrix to identify different products and plan ahead.



ResultsPlus Examiner Tip

You will not be expected to 'know' which of a particular business's products fit into different categories of the Boston Matrix. However, it is important that you are able to make suggestions of what might fit into each category in order to show that you understand how businesses use it as a decision-making tool.

Question 6

Question 6 of the paper is usually the first example of one where candidates will be expected to 'evaluate'. In this example, they were expected to evaluate the usefulness of 'decision trees'. In a unit that focuses on decision-making tools business can use, this type of question is typical.

6 Assess the usefulness to Toyota of using decision tree analysis when it considered recalling its products.

Decision tree analysis is very useful to businesses facing multi step problems. They provide an objective view on the situation to guide managers to make the hopefully correct decisions.

In Toyotas situation using decision tree analysis would have laid out their options, with a relative risk for each and the gain that can be made from each.

By following what the decision tree said to do Toyota could respond in the correct way hopefully with the minimal damage to their reputation and sales revenue.

By using the decision tree method it could avoid the strong voices decide what to do even though it may be the wrong thing to do, as it is much harder to argue with facts on paper in the form of a decision tree. A decision tree in this instance would have outlined the costs/benefits of a particular action, say to decide to recall the cars as well as the risk factors associated with this particular decision.

Decision trees are also simple, usually with yes/no nodes allowing everyone to understand why the decision was made. This will avoid conflict within Toyota about the reasoning behind decisions which if it did occur would increase Toyotas costs and decrease their profit.

(total revenue - total costs = total profit)

There are problems with decision trees however. In a time of crisis, such as what Toyota experienced over the recall of its cars, a more authoritarian leadership style is required, where one person decides what to do. Secondly in these times a firm must move fast. Spending time gathering information and constructing the tree is costly and time wasting, causing the likelihood of what Toyota does to be successful lower. The tree is only as good as its data, also. The data gathered may be false or may be inaccurate by the time it is used. Finally sometimes in these instances it is better to go with gut feeling, this is essential to being an entrepreneur and having a feel for the market which you are in.

I think that decision trees could be useful to Toyota in their situation if the data is collected quickly and efficiently and a decision about the plan of action is also made quickly. They should be used with caution however and in conjunction with other methods available to Toyota.



ResultsPlus Examiner Comments

This response has a number of important positive features: it clearly shows an understanding of what decision trees are and how businesses use them - particularly important is that they can be used to forecast 'risk' and the effects of an option on the returns of a business. This answer is also clearly in context and is closely related to Toyota as a car manufacturer. The structure is clear and the candidate discusses the uses and limitations of decision trees clearly. The answer could be improved even more if the conclusion brought in important contextual information such as Toyota not having faced a situation similar to this before in their history.



ResultsPlus Examiner Tip

When discussing the uses and limitations of a business decision-making tool such as decision trees, make sure that you show sufficient knowledge of how the techniques are used and what they show a business.

Question 7 (a)

Corporate culture was quite a large feature of the pre-release material and it provides a good subject material for open-ended questions such as this. The important thing that was being examined here was the understanding of what 'corporate culture' is - the unwritten rules of behaviour that an organisation has and that influence the way workers in particular behave. In this case it was looking at the influence of Toyota's culture and the degree to which it shaped the business's response to concerns over safety.

SECTION B

Decision-making report

Using ALL the evidence and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

7 *(a) Assess the importance of Toyota's corporate culture in influencing its response to concerns over the safety of its cars.

(20)

Corporate culture is how the business operates on a day to day basis, "how it is done around here". Toyota's corporate culture most certainly had an effect on the safety concerns with their products. In Toyota's guiding principles Toyota claim to have a culture that enhances creativity and teamwork though this has been found to not be the case. A defence culture has developed within Toyota and workers have been scared to raise issues with their superiors out of fear. This leads to errors ~~not~~ not being reported and instead to get worse. ~~They~~ ~~have~~ ~~also~~ ~~been~~ ~~criticised~~. Also Toyota being Japanese are very proud of their work and are embarrassed by errors. Therefore workers may sweep problems under the rug out of shame which leads to the problems escalating. However corporate culture is not the only factor at blame. Toyota's quest for rapid growth and shifting towards the aim of ~~quantity~~ ^{quantity} over quality has also had an effect on product safety. As Toyota pursue growth at an unsustainable rate corners in production had to be ~~cut~~ cut. This meant processes such as Total quality management and kaizen were not performed as they previously were. The lack of these techniques will have led to a reduction in the quality of products.

and increased the number of ~~faults~~ faults with the products. Also growth will have lead to diseconomies of scale making communication more difficult in the firm leading to messages becoming distorted and decisions taking longer. A Toyota employee could have raised the issue but by the time it reached the top may have become distorted or ignored. In addition to this staff may feel more separated from management due to growth causing them to feel less motivated and work less hard, leading to production errors and a reduction in quality. Toyota have also been criticized in the past for poor ~~crisis~~ crisis management and contingency planning. By having ^{this Toyota} ~~poor~~ plans or unprepared for errors and mistakes Toyota look bad to the public when they take so long to fix safety concerns causing consumers to be concerned over other Toyota models, ~~as~~ damaging reputation. In conclusion I believe ~~as~~ the corporate culture definitely holds some of the blame however I think it is narrow minded to lay the blame on one factor as I believe the problem starts with both growth ~~and~~ and the corporate culture. While growths lead to losing the TQM and kaizen and may have demotivated workers, ~~both~~ culture also made workers

fearful of reporting these errors. I recommend that Toyota look at decreasing their rate of growth and work on improving their culture in order to address safety concerns, improve reputation and restore faith in the Toyota brand.



ResultsPlus

Examiner Comments

This question required candidates to focus on 'the way things are done around here' (Corporate culture). Strictly speaking this does not include Toyota's Guiding Principles that were included in the pre-release. These may influence the culture, but they are more the 'official company policy' that may not accurately reflect what actually occurs.

This response shows a good understanding of how factors such as Japanese traditions of deference caused delays in the recall. Importantly though, the candidate goes on to explain that culture was not the only factor and that things such as Toyota's objectives of expansion may have been equally important. This response scores highly because they are able to make a nuanced judgement that shows understanding of the complexity of the situation.



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Examiner Tip

In question 7a and 7b it is important that your answer looks at both sides of the question. In this case culture was important, but think to yourself 'what else was a factor?' - it is very rare indeed for any business decision to be clear cut.

Question 7 (b)

For the first time on this specification the subject content of financial ratios were examined in part B of the paper. This was in order to give candidates a wider opportunity to use these crucial tools to fully evaluate the performance of Toyota. The question also directed students to consider other factors outside the results of the ratio calculations to assess Toyota's performance overall.

7 *(b) Assess Toyota's performance between 2009 and 2010, using **ratio analysis** and any **other relevant information**.

(30)

Ratio analysis is often used by firms to make comparisons between different firms or from historical data to assess performance of said firm.

The current ratio is an example of liquidity ratio which expresses how well Toyota would be able to meet their short term debts. Toyota's has a current ratio of 1.07 ^{in 2009} which is slightly lower than would be desired. This means that Toyota do still have all the current assets to meet all their short term debts if they were able to sell all their stock. However, it has increased to 1.22 in 2010 showing that even in light of bad times for the company their liquidity has improved. However, being a car manufacturer current assets tied up in stocks are hard to turn into quick cash because it is not easy to sell a large amount of extra cars as they are expensive investments for the consumer, which is why the acid test ratio may be a better tool for Toyota to use as this does not include stock as a current asset.

Return on capital employed (ROCE) shows how much was made as net profit as a percentage of what was invested. For the year of 2009 the ROCE was -2.5% which improved to 0.75% for 2010. This figure would again show that the financial situation of the business has improved between the two years as they have started making a profit on their investment. Although, they would be expected to be able to make more effective investments of capital seeing as the world economy was starting to recover at this time.

although it would also indicate that the faulty pedal situation of 2010 did not affect the performance of the business. However, to make this assumption comparisons to figures of other businesses must be assessed in order to be sure that Toyota's improved ROCE was proportional to other firms in the automotive industry.

Gearing is a ratio which assesses how much of a firm's capital has come from loans. In 2009 this was 42.6% and 44.4% in 2010. This would show that more of Toyota's capital came from loans in 2010 but it has only risen very slightly. This would be expected as with the economic climate Toyota might be attracting less investors, increasing the need to borrow in order to grow. A figure of 44.4% is quite healthy as a firm is considered over-gearred at above 50%. Borrowing is required in order to sustain growth over time and investors will not be interested in a firm who is not investing loans in order to increase the value of their shares. However, being too highly geared can mean long term liabilities are too high and it begins to affect profitability of the firm with more interest being paid.

In conclusion, I believe ratio analysis could ~~see~~ be of use to Toyota in allowing them to assess their financial situation as well as make future forecasts. Improving figures may even serve to attract more investors and the money could be used for further growth of the company. I think they should use the acid test ratio to assess liquidity as stocks or cars are difficult to sell short term so the current ratio is of less use. They do however require like for like data from other similar companies to be

able to accurately analyse the success of the firm in comparison to other big players. This will all take time but I believe for a firm the size of Toyota and with the resources they have control of it would be a worthwhile tool to use.



ResultsPlus Examiner Comments

This candidate clearly addresses the two aspects of the question: the results of the ratio analysis, and the other factors such as macroeconomic influences that also had an impact on Toyota's performance.

Particularly impressive is the way that the response uses counter arguments to evaluate and this achieve level 4 marks. For example, they discuss the slight increase in gearing, but then make the valid point that this might have been due to the world recession and might not have been anything to concern Toyota specifically. It might also be that the borrowing occurred in order to sustain the growth of Toyota - a stated corporate objective.

A conclusion is then drawn explaining that despite all the arguments made, the results of ratios should always be used with caution, and compared to the performance of competitors to be given meaning.



ResultsPlus Examiner Tip

When calculating ratios, make sure you use the results of your calculations effectively: explain what your results show - improvement or worsening? Be clear about which aspect of a business's performance they are relevant to: profitability? liquidity? Explain the possible limitations of your results and discuss the other external/qualitative issues that may be relevant to judging the overall performance of a business.

Paper Summary

In order to improve their overall performance in this paper, candidates should:

- Make sure they are fully aware of the content of the pre-release material and have a secure understanding of all the key business terminology contained within it.
- Practice writing in context. In other words, showing an understanding of the business and its wider situation – simply writing 'Toyota' at this level is not sufficient – there needs to be an appreciation that, in this case they are a multinational car manufacturer who had built a reputation for quality.
- Aim to write balanced, evaluative answers to question: 6, 7a, 7b – this means writing two-sided answers with a conclusion that answers the question directly and brings in points that help to make the judgement on one side and not the other – this may be something to do with the business's overall aims or strategy for example.
- Practice time-management so that the last two questions in particular can be answered in sufficient depth and detail, and are not rushed as time begins to run out.
- Look for the command words in each question and structure their answers accordingly – this avoids writing answers that are either too short or too detailed, and should also help candidates with overall time management.

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