

Examiners' Report
January 2013

GCE Business Studies 6BS01 01

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Introduction

Candidates' performance this series suggested that they had generally been well prepared for this exam and continue to show sound approaches to answering both supported multiple choice questions in Section A and the structured questions found in Section B. As in previous series, questions in both sections were designed to test knowledge and understanding, application, and the higher order skills of analysis and evaluation.

Candidates' performance on this paper as a whole showed an effective grasp of business/economics concepts and theory, together with a sound understanding of business behaviour. Successful candidates were able to make effective use of the concepts and business behaviour in the stems in Section A questions, as these provided a context so that candidates were placed in a better position to explain their answers in part (b) of the questions. Likewise, candidates who wrote answers in context in Section B, i.e. showed application skills, scored better than those who did not since this enabled access to higher marks, particularly for question 9 and the levels of response for questions 11, 12 and 13.

In keeping with the aims of the specification, it appears that the more exposure candidates have to a variety of businesses as part of the teaching and learning - through use of websites, audio-visual materials, company reports, newspapers and educational visits/visitors from business into school - the more likely they are to deepen their knowledge and develop and transfer their contextual understanding. This also helps to challenge a candidate's ability to analyse and assess business behaviour and so they can achieve the higher marks available.

Section A

A number of candidates did not insert an answer in the box for part (a) of these questions. Examiners advise that they should offer at least a guess to part (a) to increase their chances of scoring higher marks overall. As with previous papers, the ability of candidates to gain the 3 marks for 'explain your answer' (or 'show your workings' in question 1), distinguished better candidates, particularly for questions 4, 5, 6, 7 and 8, which required candidates to explicitly apply their knowledge, analyse and/or evaluate.

Most candidates were able to score at least 1 mark out of 3 for part (b) in answers to questions 1 to 8 by giving appropriate definitions/descriptions/formulae to help them support their responses to part (a). For example by writing the formula for break-even in answer to question 1, or by describing what is meant by stakeholder in answer to question 2.

Some candidates were less able to show their knowledge and understanding of basic business terms and concepts. For example, a surprising number of candidates did not clearly define or show an understanding of what was meant by democratic leadership style in answer to question 2 - often confusing autocratic with democratic.

Section B

The David Benbow Hair Salon (Chapman's or Chic?) case study appeared to be accessible to most candidates across the ability range and where examiners marked whole scripts, there appeared to be no gender bias in results which might have been expected given the context of the case study. However, knowledge of business terms and concepts clearly varies. Some candidates appeared to confuse either inflation or exchange rates with interest rates in response to question 11.

When candidates did not recognise trigger words, it appeared to explain lower marks for some questions. For example for question 12 a significant number of candidates did

not *assess* two ways David's business might achieve competitive advantage, but instead *analysed*. Likewise many candidates simply *described* how David might use primary market research methods and business planning in answer to questions 13 (a) and 13 (b), instead of *evaluating* the likely value of the procedures.

Question 1

Generally tackled well by most candidates supporting their answer in part (a) which was B, with a formula and the insertion of data into the formula for part (b). For example Break-even = $FC/Contribution$ (1 mark) followed by $£12,500/£50 = 250$ Units

SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 (a) Sussex Skaters, a niche manufacturer of skateboards in Brighton, generated the following financial accounts in 2012.

	£
Fixed costs	12 500
Total revenue	250 000
Contribution per unit	50
Variable costs	50 000

Calculate the break-even level of output for Sussex Skaters in 2012.

(1)

- A 200
B 250
C 1 000
D 5 000

Answer

B

- (b) Explain your answer (show your workings).

(3)

$$\text{Break Even Point} = \frac{\text{Fixed Costs}}{\text{Contribution}}$$

$$250 = \frac{12\,500}{50}$$

Break even point is 250



ResultsPlus Examiner Comments

This is a typical response by candidate showing B for part a) = 1 mark; for part b) the Break-even formula (1 mark) and correct insertion of data (2 marks)



ResultsPlus Examiner Tip

Candidates are advised that with any calculation question, they should always insert a formula or show knowledge of an appropriate business concept.

SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 (a) Sussex Skaters, a niche manufacturer of skateboards in Brighton, generated the following financial accounts in 2012.

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Variable costs	50 000

Calculate the break-even level of output for Sussex Skaters in 2012.

(1)

- A 200
- B 250
- C 1 000
- D 5 000

Answer

- (b) Explain your answer (show your workings).

(3)

Break-even is the level of output at which there are no profits or losses made. $TURNOVER - COSTS = 0$

$Total Revenue - Fixed \& Variable costs = 0$



ResultsPlus Examiner Comments

Description of what is meant by break-even scores 1 mark for part (b)



ResultsPlus Examiner Tip

No answer in part (a) of this question, which is a wasted opportunity to guess and possibly gain a mark.

Question 2

A question which was generally answered well by candidates. For part (a) the answer is A Democratic. Most candidates in part (b) described what democratic leadership would feature, then explained why this applies to Andy for the second mark, before explaining a distracter for a third mark - typically D Autocratic. Examiners did not reward statements contained in the stem, such as 'discuss and agree'. Instead, they rewarded candidates who stated that Andy's democratic leadership style allows for consultation, shared decisions, involvement in making decisions.

- 2 (a) Andy Walker, General Manager at Virgin Active Ltd health club in Derby, organises monthly 'Coffee and Chat' meetings with his staff to discuss and agree new ideas with him.

Which **one** of the following leadership styles does Andy seem to be using in this case?

(1)

- A Democratic
- B Theory X
- C Paternalistic
- D Autocratic

Answer

C

- (b) Explain your answer.

(3)

Leadership styles are styles in which leaders of companies adopt in order to run their business as to how they want. The answer cannot be D as autocratic leaders dictate to their employees and employees have no say. Furthermore, the answer cannot be theory X as theory X workers only work for financial gain and would not be interested in new ideas for the business.



ResultsPlus

Examiner Comments

Answer to part (a) incorrect - 0 marks
Answer to part (b) No marks for description of what is meant by leadership style. 1 mark for explaining why autocratic D is incorrect; 1 mark for explaining why X theory B is incorrect.



ResultsPlus

Examiner Tip

Had the definition of leadership style been tighter, e.g. 'to share a vision and encourage a sense of purpose and direction' then this could have scored a mark in part (b). However, in this case because the candidate did not answer part (a) correctly, no further marks for part (b) could have been awarded.

- 2 (a) Andy Walker, General Manager at Virgin Active Ltd health club in Derby, organises monthly 'Coffee and Chat' meetings with his staff to discuss and agree new ideas with him.

Which **one** of the following leadership styles does Andy seem to be using in this case?

(1)

- A Democratic
- B Theory X
- C Paternalistic
- D Autocratic

Answer

A

- (b) Explain your answer.

(3)

A democratic leader is one that likes to get other peoples view point so that they can work out the best idea. The answer is not Autocratic as this would mean that Andy makes all of the decisions himself without asking the others for their ideas. The answer is not Theory X as this is mgregors theory that employees only work per money. The answer is not ~~is~~ ~~is~~ paternalistic as this would mean that Andy made all of the decisions himself for the ~~best~~ best of his employees interests.



ResultsPlus
Examiner Comments

Part (a) correct - 1 mark

Part (b) 1 mark for definition of democratic; 1 mark for explaining why this applies to Andy; 1 further mark for explaining why paternalistic (C) is incorrect.

Question 3

Most candidates gained full marks on this question. Many were able to provide a definition of a stakeholder before explaining why D Staff would most likely be negatively affected by an extension to the club's opening hours.

3 (a) Which group of stakeholders of Virgin Active Ltd, Derby, is **most likely** to be negatively affected by an extension to the club's opening hours?

(1)

- A Suppliers of shampoo
- B Members who live 10 miles away
- C Shareholders
- D Staff

Answer

D

(b) Explain your answer.

(3)

A stakeholder is someone who is interested in the running of the business and affected by the decisions made. Staff would be negatively affected as it would mean they may have to work longer and harder hours than before. Shareholders may see a positive impact, as longer opening hours could lead to more customers → more revenue = more profit, so shareholders may receive a greater dividend.

(Total for Question 3 = 4 marks)



ResultsPlus Examiner Comments

Part (a) correct - 1 mark
Part (b) Good opening definition of stakeholder - 1 mark; explanation as to why staff might suffer - 1 mark; benefit of greater dividends to shareholders explained - 1 mark.



ResultsPlus Examiner Tip

This shows a very useful and straightforward approach to tackling supported multi choice questions:

Start with a definition

Explain the correct response by making use of the context.

Explain a distracter by making it clear which distracter it is - in this case Shareholders.

- 3 (a) Which group of stakeholders of Virgin Active Ltd, Derby, is **most likely** to be negatively affected by an extension to the club's opening hours?

(1)

- A Suppliers of shampoo
- B Members who live 10 miles away
- C Shareholders
- D Staff

Answer

D

- (b) Explain your answer.

(3)

Stakeholders are anyone or any group which is affected by the actions of a business. These may include employees, pressure groups, shareholders, people living near the vicinity of the business, etc. Staff are negatively affected by the club's actions as they are now required to work later than they originally had to. This could impact on motivational levels as well as the efficiency of the business. The other answers are not correct as they benefit. For example, shareholders get more money if the business stays open later & makes more profit. Members who live 10 miles away can now spend longer at the club rather than say having to rush there after work and leave as soon as it closes. (Total for Question 3 = 4 marks)



ResultsPlus Examiner Comments

Part (a) correct - 1 mark

Part (b) defines stakeholder and lists examples - 1 mark;
explains why staff are negatively affected - 1 mark; explains
why members who live 10 miles away might benefit - 1 mark.



ResultsPlus Examiner Tip

Benefit of the doubt given to this candidate because he/she suggests that ALL staff are now required to work later, which may not be the case.

Benefit to shareholders not really explained fully; no mention of dividends from 'more profit'.

3 (a) Which group of stakeholders of Virgin Active Ltd, Derby, is **most likely** to be negatively affected by an extension to the club's opening hours?

(1)

- A Suppliers of shampoo
- B Members who live 10 miles away
- C Shareholders
- D Staff

Answer

D

(b) Explain your answer.

(3)

A stakeholder is someone who is affected or has interest in a business. Staff are clearly stakeholders to Virgin Active Ltd as they work for the business. An extension to the club's opening hours would clearly have an effect on the staff, as we can understand that the staff would obviously have to work for longer hours during the day. A shareholder of the ~~club~~ business would also be a stakeholder, however, a shareholder would not be affected by the extension of opening hours as he/she is not directly working for the business. (Total for Question 3 = 4 marks)



ResultsPlus
Examiner Comments

Part (a) correct - 1 mark

Part (b) defines stakeholder - 1 mark; explains why staff might be negatively affected - 1 mark; 0 marks for shareholder statement as incorrect.

Question 4

There were a wide range of responses to this question. Distracters were rarely explained properly. Stronger candidates took the opportunity to show understanding of the need for long term profit without confusing this with the need to achieve profit to cover running costs or to maximise profits.

This question related clearly to entrepreneurial motives. It was expected that candidates would be able to appreciate that not all entrepreneurs seek to maximise profits, but rather seek welfare maximisation, might be satisficers or operate for ethical reasons.

- 4 (a) Richard Beddard and Stuart Woodhouse own and operate a healthcare partnership offering alternative medical treatment in the West Midlands. The partners choose **not** to maximise profits.

This is **most likely** because Richard and Stuart

(1)

- A prefer to run a business which is unprofitable
- B run a business which is unethical
- C have many competitors
- D put other objectives before profit

Answer

D

- (b) Explain your answer.

(3)

Stuart and Richard can be described as satisficers who do not try and earn as much money as possible (profit maximisation) but instead try and earn a comfortable standard of living. Running a business that is unprofitable will cause it to become ^{insolvent} bankrupt and this is not what entrepreneurs want. Competitors would force prices down not up so they would be unable to profit maximise. An entrepreneur who doesn't put profits first is probably more interested in increasing customer satisfaction etc. which is ethical.



ResultsPlus
Examiner Comments

Part (a) correct - 1 mark

Part (b) identifies that Stuart and Richard are satisficers - 1 mark; explains overall that they seek customer satisfaction instead - 1 mark; explains why A is incorrect - 1 mark.

- 4 (a) Richard Beddard and Stuart Woodhouse own and operate a healthcare partnership offering alternative medical treatment in the West Midlands. The partners choose **not** to maximise profits.

This is **most likely** because Richard and Stuart

(1)

- A prefer to run a business which is unprofitable
- B run a business which is unethical
- C have many competitors
- D put other objectives before profit

Answer A

- (b) Explain your answer.

(3)

Profit is total revenue - total costs and so is the money left over after ^{the} costs having been taken away from the total money you have earned. Richard and Stuart may not be interested in making as much profit as possible because they are more concerned about doing things right and being ethical and in this case are interested in producing good medical treatment that will ~~be~~ ^{help} people. If the business is unethical they wouldn't be doing anything good for example damaging environment, having workers treated unfairly. So B is wrong.

(Total for Question 4 = 4 marks)



ResultsPlus

Examiner Comments

Part (a) correct - 1 mark

Part (b) defines profit - 1 mark; then actually explains why they are not profit maximisers - 1 mark



ResultsPlus

Examiner Tip

Since part (a) is incorrect, maximum of 2 marks for part (b)

Question 5

This question proved more challenging. Part (a) of a question is testing knowledge and understanding and in this case the ability to recall what cost-plus pricing is about.

For part (b) of this question the candidate's ability to explain (by analysis or evaluation) or illustrate (apply) is being tested. Simply paraphrases of one of the statements B-D was not credited. To arrive at the correct answer – A – a candidate should have processed that cost-plus pricing does not guarantee that a profit will be made, but rather that a **gross** profit would be made, providing the product is actually sold. This question tested a candidate's appreciation of business finance and pricing – the synthesis of specification areas 1.3.6a and 1.3.6c. Therefore this question was a useful discriminator and was aimed at A and B grade candidates.

5 (a) Business Link offers owners of new, small businesses practical advice on its website.

Business Link states each of the following about cost-plus pricing, **except**

(1)

- A it guarantees that a profit is made
- B it is usually expressed as a percentage of the cost which is added to the cost
- C it can ignore the image of a business and its market position
- D it can sometimes ignore hidden costs

Answer

D

(b) Explain your answer.

(3)

- Cost-plus pricing is what businesses add to the price of a product to ensure profit is made
- ~~D: not relevant to cost-plus pricing~~ covers all costs so ~~does not ignore hidden costs~~
- B: Yes as covers all costs and then adds a profit margin
- A: does guarantee profit as a profit margin is added to cost of production.



ResultsPlus

Examiner Comments

A poor response which simply lifts or largely paraphrases the information contained in the question distracters B to D. The candidate clearly did not appreciate that cost-plus pricing can only ensure gross profits and only if the product is actually sold at the planned price to cover cost of goods sold.

5 (a) Business Link offers owners of new, small businesses practical advice on its website.

Business Link states each of the following about cost-plus pricing, **except**

(1)

- A it guarantees that a profit is made
- B it is usually expressed as a percentage of the cost which is added to the cost
- C it can ignore the image of a business and its market position
- D it can sometimes ignore hidden costs

Answer

A

(b) Explain your answer.

(3)

cost plus pricing is a pricing strategy where the price is a percentage above the costs. it doesn't necessarily guarantee that a profit has been made, maybe all stock isn't sold, so there might be a loss, maybe it is true that it can ignore the image of a business and its market position, because the cost-plus strategy focuses on trying to make a profit.



ResultsPlus

Examiner Comments

Part (a) correct - 1 mark

Part (b) shows that cost-plus pricing does not necessarily guarantee a profit unless stock is sold - 1 mark; explains why the pricing strategy ignores the image of the business - 1 mark (benefit of doubt given to candidate)



ResultsPlus

Examiner Tip

It would have been useful had the candidate distinguished between gross profit and profits or explained the answer by referring to mark-up, or the need to take into account expenses.

Question 6

This question, like question 5, was also aimed at grade A and B candidates. This is because A, B and C are all reasons for market mapping. However, in order to arrive at answer D rather than simply C, for example (the most obvious answer) a candidate will need to appreciate that a market map plots brands against two major variable features of a product to show gaps in a market in order to identify neglected niches (the explanation for C); also appreciate that it can show how one brand is differentiated, which can be the source of competitive advantage (explanation for A); and understand that product differentiation can shed light on how a brand adds value B.

Thus A, B and C are all plausible and as the stem says 'can' rather than 'must', D is correct.

- 6 (a) Before he established Moonpig.com in 2008, Nick Jenkins made use of market mapping.

Market mapping can help entrepreneurs like Nick to

(1)

- A determine the competitive advantage of their products or services
- B understand how they can add value
- C identify a potential market niche
- D achieve all of the above

Answer

A
 B
 C
 D

- (b) Explain your answer.

(3)

Market mapping is plotting a business on a grid depending on two features. For example price and quality.

A market map can determine a competitive advantage as you will see where other rivals are. This can help you find out you have something ~~that~~ they don't. For example better quality.



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Examiner Comments

Part (a) correct - 1 mark

Part (b) describes what is meant by market mapping in own words, refers to price and quality variables - 1 mark; explains why market mapping can determine competitive advantage - 1 mark

Question 7

Many candidates were able to access full marks for this question, demonstrating good knowledge of methods of finance with regard to long and medium term, and risk. However, a significant number opted for a commercial bank loan appearing not to recognise the benefits of trade credit.

Jim and Jean's grocery business is small, independent and well established. The owners need to increase stock levels.

Therefore, the most appropriate method of external finance would be to obtain trade credit.

It was important that candidates explained the link between the method of finance (trade credit) and the need to buy stock. For example, whilst a candidate may have dismissed answer B on the basis that this may not be appropriate 'because Jim and Jean may have to relinquish part of their business ownership', this statement does NOT explain why this method of finance is not as suitable as option C trade credit.

- 7 (a) Jim and Jean Richards are proprietors of a small, established, independent grocery store in Cornwall. They are planning to expand their stock levels.

Which **one** of the following would be the **most suitable** method of finance for the activity above?

(1)

- A Debentures
- B Issue of share capital
- C Trade credit
- D Commercial bank loan

Answer

C

- (b) Explain your answer.

(3)

Trade credit involves agreeing with a supplier to have access to the bought good before payments. For example, Jim and Jean can get more food stock from farmers and pay them back the cost in a few months when demand has risen and profits achieved on the new stock. Issuing shares is unlikely as Jim and Jean are an independent business, and cannot offer shares like a limited company. A bank loan are usually for long-term, high loans. Stock levels are a relatively small cost so a loan would be pointless with the high cost of interest.

(Total for Question 7 = 4 marks)



ResultsPlus

Examiner Comments

Part (a) correct - 1 mark

Part (b) describes what is meant by trade credit - 1 mark;
explains the benefits of this to Jim and Jean - 1 mark;
explains why bank loan D is less appropriate - 1 mark.

- 7 (a) Jim and Jean Richards are proprietors of a small, established, independent grocery store in Cornwall. They are planning to expand their stock levels.

Which **one** of the following would be the **most suitable** method of finance for the activity above?

(1)

- A Debentures
- B Issue of share capital .
- C Trade credit .
- D Commercial bank loan.

Answer

C

- (b) Explain your answer.

(3)

Trade credit is where suppliers allow a period of time, e.g. 30 days before a sum has to be repaid. It is perfect for Jim & Jean as it allows some medium term finance for their established business, to alleviate cash-flow problems. A Debenture is not ideal as it is a long term business loan which usually has to be secured against collateral, to fund long term expansions, As Jim & Jean are only looking to expand some ~~some~~ more stock, trade credit is more suited as they can ~~earn~~ earn the money to pay the supplier back within a period of time, being an established business. Because they are an independent business, they are not in a position to issue share capital in exchange for money, as public limited companies are. (Total for Question 7 = 4 marks)



ResultsPlus

Examiner Comments

Part (a) correct - 1 mark

Part (b) describes trade credit - 1 mark; explains that it will prevent cash-flow problems and later states that it can be used to pay the supplier back - 1 mark; explains why a debenture is not as appropriate - 1 mark.



ResultsPlus

Examiner Tip

This candidate clearly makes effective use of the context to help process and develop an answer which shows sound understanding of the financing issue.

Question 8

Candidates were expected to appreciate that as Sweet Heart Ice Cream is a niche market supplier, supplying Asian restaurants in the Birmingham and West Midlands region, it is unlikely to make use of TV advertising which is a mass marketing method of promotion. Furthermore TV advertising might prove too expensive for such a small business, as well as ineffective.

- 8 (a) Phiroz and Sabiha are directors of an ice cream manufacturing company, Sweet Heart Ice Cream Ltd. The company operates in a niche market, supplying non-dairy ice cream to Asian restaurants in the Birmingham region.

Which **one** of the following would be **least likely** to be used by Phiroz and Sabiha given the company's current market position?

(1)

- A Methods of adding value
- B Television advertising
- C Qualitative market research
- D An ethical stance

Answer

B

- (b) Explain your answer.

(3)

there's no need to do television advertising ~~as~~ as your aiming for a specific market and not a big area so you can do private marketing advertising towards your niche market (asian restaurants)



ResultsPlus
Examiner Comments

Part (a) correct - 1 mark

Part (b) explains why B is not appropriate for Sweet Heart Ice Cream Ltd - 1 mark



ResultsPlus
Examiner Tip

This candidate missed the opportunity to define niche market and then explain why operating in this type of industry, supplying to restaurants rather than direct to customers, would benefit most by focusing on other methods of marketing.

- 8 (a) Phiroz and Sabiha are directors of an ice cream manufacturing company, Sweet Heart Ice Cream Ltd. The company operates in a niche market, supplying non-dairy ice cream to Asian restaurants in the Birmingham region.

Which **one** of the following would be **least likely** to be used by Phiroz and Sabiha given the company's current market position?

(1)

- A Methods of adding value ✓
- B Television advertising
- C Qualitative market research ✓
- D An ethical stance

Answer

B

- (b) Explain your answer.

(3)

niche market - small market with specialist needs where prices tend to be higher.

B - because the ice cream business operates for a niche market supplying to non-dairy Asian restaurants - so unlikely to try to reach wider public - not a way to reach their niche.

Not C - this would help the business establish why their customers buy the ice cream they do - helping them understand their market better



ResultsPlus

Examiner Comments

Part (a) correct - 1 mark

Part (b) defines niche market - 1 mark; explains answer B - 1 mark; explains distracter C - 1 mark

Question 9

In their explanations as to what makes an entrepreneurial characteristic different from a motive, it was expected that candidates would show knowledge of both concepts. Too often they simply repeated the words such as 'they are characteristics an entrepreneur possesses' or 'they are what motivates the entrepreneur'. Such answers were not rewarded. Some candidates gave better answers using the words 'traits', instead of characteristics and 'driving force' instead of motives.

Most candidates were able to give examples of each, such as hard working for characteristic or independence for motive.

Most candidates were able to draw from the case study examples for each aspect of the question, often citing David's passion for creativity as a hairdresser (in this case a characteristic or motive) or his need to have a good reputation and satisfy clients (motive).

9 Using Evidence A, distinguish between entrepreneurial characteristics and entrepreneurial motives.

entrepreneurial characteristics are qualities of a successful entrepreneur. David is committed to working long hours in his salon and therefore he is hard working which will ~~also~~ enable him to be successful as it will mean the salon ~~can~~ will benefit from constant effort and input from its ~~the~~ dedicated owner. whereas entrepreneurial motives are what drives an entrepreneur to set up their business. David A key motive for David was creativity - of which his previous job at an opticians lacked. therefore he is motivated by his ability to experiment with clients hair in his salon and ~~to express enjoy his job as he make things happen through experimenting with clients hair.~~



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Examiner Comments

Defines characteristic as a quality; refers to hard work - 2 marks knowledge
Defines motive as what drives an entrepreneur to set up their business; refers to David's creativity - 2 marks knowledge/application
Applies each from the case study:
David works long hours in the salon (and is dedicated) - 1 mark application
David experiments with clients' hair - 1 mark application

9 Using Evidence A, distinguish between entrepreneurial characteristics and entrepreneurial motives.

Entrepreneurial characteristics are to work hard, be creativity and understand their market whereas the entrepreneurial motives are to gain profit or to be their own boss.

David shows his entrepreneurial characteristics by quitting his first job as he realised that it failed to match his passion for creativity. This shows that he likes experimenting with ideas. But also he was committed to working long hours. These are two major characteristics to successful entrepreneurs.

~~the~~ this motives were that he knew what he wanted & while working to earn money to become self employed he learnt about the finance & to update his skills. He also feels his clients are worth every penny.

David has a mix of motives & characteristics of an entrepreneur which has let led to his success & reputation.



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Examiner Comments

This candidate did not describe or define what is meant by characteristic or motive.

The candidate simply provides in to provide both text book examples (work hard, creativity, working to earn money) and evidence from the case study (working long hours, feels his clients are worth every penny) to score 2 marks knowledge and 2 marks application

Question 10

Opportunity cost is a concept which should be familiar to candidates. Indeed it is often included in GCSE specifications as well as GCE Business/Economics specifications. Most candidates were able to provide a textbook definition relating to next best alternative choice foregone, but still a number of candidates felt it was to do with 'missing an opportunity' or the disadvantages of not taking an opportunity. For example a few candidates thought that it related to missing the opportunity to earn more money as an optician. Nonetheless, most candidates were able to use the case study to show how David had to forego one thing for another, e.g. employment for self-employment; renting a chair or owning a salon outright; developing the premises in Worcester or having more retained profits in the bank.

10 Explain how the concept of opportunity cost applies to David.

Opportunity cost is the loss of ~~the next~~ something in order to gain something else.

David went through opportunity cost when he decided to leave his job.

David saw being self employed owning part of the salon will benefit him more, therefore he did it.



ResultsPlus

Examiner Comments

Knowledge of opportunity cost is shown and one application aspect - being self employed. Leaving his job is not specific enough for application but the candidate could have referred to Raymonds to gain a third mark. No analysis is shown.



ResultsPlus

Examiner Tip

It would have been better if the candidate had explained why seeking self employment was opted for by David to gain the analysis mark, ie explain why owning the salon would have benefited him more, such as independence, or more income in the longer term.

Question 11

A question which was generally tackled well by candidates. What helped was that the question asked the candidates to focus on why David might gain or benefit from an increase in interest rates. Most candidates were able to provide answers which explained that the salon might benefit because people with no credit debt but savings (such as wealthy pensioners) might be tempted to visit the salon more often because they would earn more interest on their bank deposits and therefore have more disposable income to spend. On the other hand customers with mortgages might visit the salon less frequently or switch to a cheaper salon because mortgage repayments would increase given higher interest rates, which would have caused disposable incomes to fall. So spending on 'luxury' hair treatments would fall. Some candidates considered the extent of the increase in interest rates.

A number of candidates pointed out that because David appeared to have no loans then his costs, such as the costs of servicing a loan, would not increase. However, if David took out a loan or commercial mortgage to help purchase a salon in London, then his business costs would increase.

11 Evaluate whether an increase in interest rates is likely to affect David's business.

Interest rates are the cost of borrowing money. An increase in interest rates is most likely to have a negative effect on David's business. The public will have less money as the cost of borrowing has gone up therefore so will their mortgages. This means that they will be less likely to spend money on a luxury such as getting their hair dyed which could cost up to £105. They would be more likely to go for a cheaper option or go somewhere else in order to spend the money on necessities. This would lead to a decrease in customers therefore a decrease in sales. Also as cost the cost of borrowing is high it is less likely that David will expand his salon elsewhere as it would be more expensive. However, David has developed a strong customer base and loyalty therefore his customers may still be prepared to pay for this luxury as they are loyal and

are prepared to pay for the quality he provides.
Overall I think there would be a negative effect as if ^{the people in his market} people have less money to spend they are more likely to spend it on necessities rather than getting their hair cut. (Total for Question 11 = 8 marks)



ResultsPlus

Examiner Comments

Level 1 (knowledge and understanding) - Shows knowledge on interest rates.

Level 2 (application) - refers to David's services - hair dyed at £105.

Level 3 (analysis) - explains why the salon would suffer because clients disposable incomes might fall given increased mortgage costs.

Level 4 (evaluates) - argues against suggesting that because David has developed such a strong customer base, then the salon would not lose custom.

Context is well used on both sides of the arguments, therefore 8 marks

11 Evaluate whether an increase in interest rates is likely to affect David's business.

An increase in interest rates would mean people with loans would have less disposable income per month as they will be ~~paying~~ paying more for their loan. This means could mean that David could have to put prices up to keep a healthy cash flow resulting in a loss of customers due to them no longer being able to pay the fees. As David's business is a new, upmarket salon which targets higher class citizens this is a likely consequence of increased interest rates which will oppose

a negative affect upon David's business. Finally, as David's salon is ~~is~~ new he could have caused himself making an even bigger impact on the business.



ResultsPlus

Examiner Comments

This response scores Level 3 - 6 marks because it analyses why an increase in interest rates might cause problems for David and his business. It is written in context, but is one-sided - it does not illustrate how an increase in interest rates might NOT adversely affect David's business.

Question 12

The majority of candidates answered this question well but unfortunately did not follow the key 'assess' instruction. The candidates only gained the maximum analysis marks of 6 for providing two applied and analysed methods of achieving competitive advantage.

Credit was given for the way David currently enjoys competitive advantage ie a high specification salon, Sassoon training, as well as for plausible suggestions for the future, such as an on-line customer booking system, healthy refreshments, complementary nail treatment, etc.

12 Assess **two** ways David's salon might achieve competitive advantage.

Competitive advantage is when a business or product has something its competitors don't. One way David's salon may have a competitive advantage would be that it has featured in 'Elle' magazine, a prestigious fashion magazine. Therefore displaying to customers that David's salon is perhaps a better salon than its nearest competitors. Another competitive advantage David may have is the new hand-made Italian waiting sofas and the Shiatsu massage chairs. This added luxury may be enough to convince customers that David cares about his them more than his competitors. This may in turn attract more customers and increase David's profits.



ResultsPlus

Examiner Comments

This was a typical response explaining two ways David's salon offers competitive advantage:

Featuring in Elle magazine which suggests to customers that it is a better salon; the new Italian hand-made sofas and Shiatsu massage chairs which provide an added luxury and so attract more customers

Neither feature questioned/assessed, so Level 3 - 6 marks.

Question 13

A significant number of candidates offered good analysis of primary market research, but did not contextualise their answers. Some did not evaluate their ideas, regularly either offering a comparison to secondary research or the textbook response that primary research was expensive and time consuming without any development of this assertion.

This pattern was repeated in part (b) with most candidates achieving analysis, but few contextualising and fewer still offering any evaluation other than time consuming, expensive and may be inappropriate because 'David has his own money and so didn't need a business plan to convince financiers'. Convince them of what? Or how? Often examiners felt these questions were not answered clearly.

David is considering opening a new salon in London.

*13 Evaluate the likely value of each of the following to David before making his decision:

(a) primary market research

(6)

Primary market research - collection and interpretation of data about the market yourself - new information. This would allow David to assess the potential demand for his high quality hairdressing services as he could ask customers in London through a survey questions such as the price range they are prepared to pay for the service to see if his more expensive prices would be suitable. This could help increase the ~~effect~~ potential to provide a service customers want and will use. However - this will not show the competition he faces in London from other salons already operating, meaning he may not realise if there will be a high level of competition. To conclude - ~~secondary~~ ^{market mapping} market research would be more useful to assess current salons and if there is a gap in the London hairdressing market.

(b) a business plan.

(6)

business plan - document which states what the business is, what it does, what it wants to

achieve goals, achieve and now. This would allow David to assess his potential ~~the~~ finances should he open a salon in London, such as ~~the~~ a forecasted profit and loss. Therefore it would help to plan the salon opening and allow David to consider the range of considerations involved. However ~~it would not show if there is any demand for his store just because he plans,~~ this may not materialise in practice. For example his costs ~~may~~ for the salon may be higher than expected such as the premises needed ~~to for~~ for the shop. Therefore ~~the~~ changes may occur, making his plan invalid and of great value. A plan would allow David to plan for his new London salon, although this depends on market changes beyond his control.



ResultsPlus
Examiner Comments

13 (a) Explains in context how undertaking primary market research might benefit David and explains why it might not, implying that secondary data collection is also needed to identify the competition in London, and identify a gap in the market

Level 4 - 6 marks

13 (b) Explains how a business plan might help support the opening of a new salon in London, forecasting profit and loss, and explains that a business plan cannot guarantee that costs will not change, for example the premises needed for the new shop; market changes beyond David's control.

Level 4 - 6 marks

David is considering opening a new salon in London.

*13 Evaluate the likely value of each of the following to David before making his decision:

(a) primary market research

(6)

Primary research is when you go out into your market and collect first-hand research. This will be valuable to David as he can go and get information that is specific to his needs and find out whether the people in London would be prepared to pay a higher price for his hair cuts. This will be valuable as he can find out whether his prospective target market would pay therefore finding out whether it is a good place to set up a new salon, also his research will not be available to competitors. However, primary research can be very time-consuming and also expensive, it may be more suitable to use secondary research as it means he will save time and money. Overall I think primary research will be very valuable to David as he can get research specific to his needs and find out whether people will be able to want to pay his prices for a 'quality' cut.

(b) a business plan.

(6)

A business plan is a formal document showing who the business is, what they do and what they plan to achieve. It is usually used to attract potential external finance and includes things like an income statement and a cash flow forecast. This will be valuable

to David as he can use it to attract potential investors. He can use an income statement to show his annual turnover of £150,000. This will secure the likelihood of getting financial support as it means he will show how much money he is currently making. However a business plan only predicts the what may happen in the future and does not secure financial support and it also takes a lot of time. Overall I think it is important for David to do this as it can help him gain finance for setting up a solar in London.



ResultsPlus

Examiner Comments

13 (a) Primary research is evaluated, but only the benefits are written in context. Level 4 - 5 marks

13 (b) Business plan is evaluated, but only the benefits are written in context. Level 4 - 5 marks

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

1. Remember to answer all part (a) sections of Section A, even if it means guessing.
2. Use definitions or written formulae in part (b) of Section A since this often attracts a knowledge mark. The concept defined should normally be in the question or found in the correct response.
3. Remember to explain why one distracter is wrong in part (b) when the supported multichoice question in Section A reads 'most likely' or 'least likely' because these questions are asking you to make a judgement which you can very often strengthen by not only explaining the answer you chose in part (a) itself, but also one of the alternatives you dismissed.
4. Read the case study in Section B carefully - you are advised to spend 5 minutes reading this and, if necessary, highlighting key words or points which might enable you to answer the questions that follow.
5. Read questions carefully and attempt to answer the question actually set. On a number of occasions evidence has shown, particularly in Section B, that candidates can waste valuable time struggling with an answer to a question that was not on the paper or trying to gain marks through an 'all I know about approach' which rarely scores many marks.
6. Spend time to plan your answers to levels of response for questions 11, 12 and 13. These carry the most marks (8, 8 and 12 respectively) so writing a balanced answer can make all the difference to your grade.
7. Work on the basis of a '1 minute per 1 mark rule' given that this paper is for 75 minutes, with 70 marks and a recommended 5 minutes reading time for the case study.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

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