

Examiners' Report
January 2013

GCE Business Studies 6BS04 01

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Introduction

The pre-release material for this paper featured SuperGroup, the UK based fashion retailer. This business has received a lot of press interest due to its rapid growth and success in gaining a number of celebrity supporters. The pre-release material covered a wide range of specification areas, lending itself to a breadth of discussion areas for teachers and students to explore in lessons.

The paper followed the established format of shorter knowledge and application based questions at the start of section A, progressing to an evaluation question at the end of the first half of the paper. This section contained the main calculation question and with quantitative decision-making techniques so important in this unit, gave students an opportunity to demonstrate their numerical understanding early in the paper. Section B, as ever, asked more open-ended questions intended to prompt students to explore broad issues of corporate strategy in their answers. The intention in both questions (7a and 7b) was to prompt candidates to make links across the pre-release material and the specification content, thus allowing a more in-depth evaluation of the business decisions in question.

Successful candidates in this paper:

- Stuck closely to the requirements of the question posed - there is a danger with examinations based on pre-release material that candidates are tempted to answer questions that they practised before the examination, or had been prepared for by teachers.
- Answered in the context of SuperGroup and its markets. They were able to recognise the fast-changing nature of the fashion industry and the rapid growth of SuperGroup and how these features influence SuperGroup's culture and mode of operations.
- Made sure they had a sound understanding of the specification content so they could apply it confidently to the questions - this is particularly the case with the numerical/calculation question.

Less successful candidates in this paper:

- Did not show secure enough understanding of specification content and terminology. Specifically: 'Average Rate of Return'; 'Critical Path Analysis'; 'Mission Statements'; 'Objectives and Strategy'. Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the examination.

Question 1

This question returned to the specification theme of competitive advantage. Candidates were simply asked to define the term - knowledge without an example was sufficient here to gain two marks, however a good example would help to lift the mark to two if the explanation was not clear enough.

1 What is meant by the term 'competitive advantage'? (See Additional Evidence J, line 3)

A competitive advantage is a strategy or aspect of a business that gives them an edge over their rivals as it gives customers more of an incentive to shop/buy their goods/services.



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Examiner Comments

This response is a good example of one where the candidate does not use an example, but whose explanation is sufficiently strong to secure the two knowledge marks that are available.



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Examiner Tip

Look through the unit specification and make sure that you understand and can remember the meaning of important key terms such as 'competitive advantage'.

Question 2

This was a short question on a central concept in the unit - corporate strategy. Strong responses without examples were sufficient to achieve the full marks.

2 What is meant by the term 'corporate strategy'? (See Additional Evidence J, line 5)

Corporate strategy is a plan to implement and achieve corporate objectives.



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Examiner Comments

A common error was for candidates to confuse strategy with objectives. This is a key distinction in the unit, so it is worth noting and understanding the difference: strategy is the means employed to achieve the objectives.



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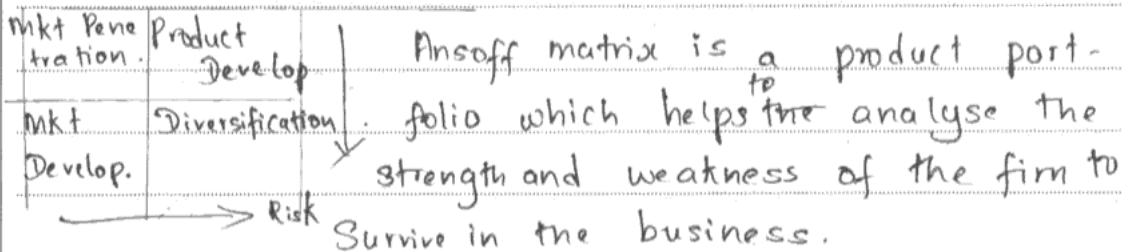
Examiner Tip

This candidate has written a clear, concise and accurate response in one sentence. This allows them to spend more time on more time-consuming questions later in the paper. Try to learn and understand the key terms and concepts from the unit in order to write similar answers.

Question 3

Ansoff's Matrix has been examined a number of times since this unit began and that is because it is a key decision-making tool. Whereas previous questions on Ansoff have been in more depth, this one was for four marks and required a more focused approach from candidates.

- 3 Using Ansoff's Matrix, explain Superdry's decision to launch a mobile phone sales option (Additional Evidence J).



There is product development which is very risky for SuperGroup to continue with.

Superdry is launching an iPhone app and a mobile optimised version of its website. This is where adding features to the product in the existing market. There is some sort of risk and it should make sure that there is are other methods to change if it does not succeed.

(Total for Question 3 = 4 marks)



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Examiner Comments

The question required candidates to **use** Ansoff's matrix. In other words it was expected that candidates would show understanding of Ansoff, then apply SuperGroup's decision to launch a mobile phone sales option to one of Ansoff's generic strategies. The best answers explained what Ansoff's matrix suggested about the risk involved in SuperGroup's decision - another key feature of Ansoff's approach.



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Examiner Tip

Read questions carefully, more than once if necessary. In this case the decision needs to be explained using Ansoff's matrix - this candidate clearly does so suggesting that the selling via mobile phones is product development, while also commenting on the risk involved in the decision.

Question 4

Stakeholders and Corporate Social Responsibility are two key features of the same part of the unit specification. The two concepts are often examined together because they are so fundamentally linked - the importance of stakeholders' views leading to businesses such as SuperGroup devising and following CSR policies.

- 4 Explain how **one** stakeholder group might be affected by the implementation of SuperGroup's Corporate Social Responsibility policy (Evidence G).

SuperGroup's suppliers will be very affected by their new CSR policy. Unless they already meet SEDEX standards in their operations they will have to put a lot of resources and time into changing their methods in order to keep SuperGroup as a customer. As SuperGroup are such a strong brand their suppliers will probably want to develop more ethical practices however any money spent on changing may be passed down to SuperGroup as higher prices thus having a negative effect on SuperGroup however you have to argue that a solid ethical reputation is better all round for both SuperGroup and their suppliers.



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Examiner Comments

The emphasis on this question is to focus on one stakeholder. The most popular responses were suppliers and shareholders, however evidence G in the pre-release material gave sufficient stimulus for most stakeholders to be used.



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Examiner Tip

Make sure you explain the 'how' and 'why' of a question. This candidate identifies the importance of ethical practices to suppliers, but also acknowledges that being socially responsible may increase financial costs to SuperGroup. As required by the question, the candidate focuses on one stakeholder group only.

Question 5

This question was divided into two parts: (a) based on completing two investment appraisal calculations (b) Interpreting/analysing the results. This was the first time that Payback and Average Rate of Return had been examined in this way.

This question proved to be challenging to many students, with a large proportion of incorrect answers and some blank responses. Although the forecast cash flows were unseen, these were relatively clear figures to work with. Most candidates could calculate Payback accurately, but Average Rate of Return proved much more of a challenge. The most common error was for candidates to forget to subtract the initial investment cost of the project.

- 5 The following information could be used to help Superdry's managers perform an investment appraisal of their decision to buy the lease of the Regent Street store (Evidence 1).

Table 1

| Year | Net Cash Flow |
|------|---------------|
| 0 | - £12m |
| 1 | £2m |
| 2 | £3m |
| 3 | £3m |
| 4 | £4m |
| 5 | £5m |

- (a) Using the data in Table 1, calculate the **Payback Period** and the **Average Rate of Return**.

(4)

| Year | Net Cash Flow | Cumulative Net Cash Flow |
|------|---------------|--------------------------|
| 0 | -£12m | -£12m |
| 1 | £2m | -£10m |
| 2 | £3m | -£7m |
| 3 | £3m | -£4m |
| 4 | £4m | £0 |
| 5 | £5m | £5m |

$$\therefore \text{Payback Period} = \underline{4 \text{ yrs}}$$

$$\text{Average Annual Return} = \frac{\cancel{£5m}}{\cancel{£12m}} \times 100 = \frac{£5m}{5} = £1m \text{ p.a.}$$

$$\therefore \text{Average Rate of Return} = \frac{£1m}{£12m} \times 100\% = \underline{8.33\%}$$

(b) Comment on the results of your calculations.

(4)

Payback period measures the amount of time it will take for the net cash flows of the project to recover the initial amount of investment. In this case, a payback ~~time~~ period of 4 years can be considered to be too lengthy, since the lower the figure the better. However, the life of the project can be more than 5 years so more profits can be made in the long run. But it will take Superdry 4 years to recoup the £12m invested.

Average Rate of Return measures the profitability of investment, by showing the average annual profit as a percentage of the initial investment. The higher the figure the better. So Superdry will earn an annual return of 8.33%, which is quite good but must be compared with alternative options for spending the £12m.

(Total for Question 5 = 8 marks)



ResultsPlus Examiner Comments

The 'Own Figure Rule' was in operation for part b of this question: accurate application and analysis were rewarded despite being based on erroneous calculations.



ResultsPlus Examiner Tip

This candidate takes a very clear step-by-step approach to the investment appraisal techniques. Importantly, they subtract the initial investment cost (£12m) from the returns to give an accurate calculation.

In part (b) the candidate uses these results to make interesting analytical points; with ARR they correctly observe that the 8.3% seems to be impressive, but it would need to be compared to alternative investments for a full judgement to be possible.

Question 6

In the first question requiring evaluation, candidates were asked to assess the likely value of Critical Path Analysis (CPA). This is a valuable quantitative decision-making tool, but candidates are expected to know that all such tools have limitations as well as uses. As ever, context is important here - the re-fit of the store is a specific project with particular needs that CPA may or may not be able to meet. The four marks available at Level 4 of the mark scheme show the importance of candidates evaluating in order to gain the highest marks.

To assist with the planning of re-fitting the Regent Street store to 'open towards the end of the financial year' the company could use **Critical Path/Network analysis (CPA)** (Evidence 1).

6 Assess the likely value of CPA in planning such a project.

Critical path analysis is a decision making tool that a business may use to help reduce project time. It also identifies critical paths that are most likely to affect the overall project time.

CPA may be beneficial for Supergroup as it may reduce the length of the project and allow them to open the store as soon as possible.* This may be particularly useful for Supergroup as they may want quick inflows to allow them to expand in Europe. CPA could also help Supergroup to identify the critical activities. This means that they can invest more resources into those activities that will reduce the chances of the store opening being delayed. This is particularly important for Supergroup as they will need the store open as soon as possible due to already missing out on a store and needing to compete with competitors that have a flagship store.

However it may not be beneficial for Supergroup as it requires a lot of time and resources to be spent on producing the CPA. This has an opportunity cost and may be better off spent elsewhere such as the planned European expansion.

The effectiveness of CPA depends how quickly Supergroup want the store open. If they require a quick opening to gain

REVENUE TO ALLOW THE FUTURE EXPANSION THEN IT MAY BE IMPORTANT.
It also depends on how knowledgeable the staff are who produce a CPA.
If they are not knowledgeable the CPA may be ineffective. However
due to recent expansion Superdry have opened many stores and
therefore the staff may have produced a CPA for these stores
which would mean they are likely to be more accurate.
However they have never done it for a store of this size

(Total for Question 6 = 10 marks)

and it depends if they are able to correctly calculate
the extra project time of a larger store

TOTAL FOR SECTION A = 30 MARKS

* this would mean that the store would be open quicker
and the business would start receiving revenue.



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Examiner Comments

With questions requiring that candidates assess the uses and limitations of a decision-making tool it is important that they relate this to the context of the business. It is very easy to write a generic discussion of uses and limitations without actually applying the argument to a specific business.



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Examiner Tip

This answer is strongly linked to the SuperDry context. For example, the use of CPA might reduce the chance of the store opening being delayed, which would have negative effects on its ability to reach customers and compete in the centre of London. The conclusion makes the excellent point that SuperDry have completed a number of similar projects recently which makes their forecasts more likely to be accurate - this is excellent application of the wider context to this specific question.

Question 7 (a)

This question was intended to encourage candidates to discuss in detail the role mission statements play in the objectives and strategy of SuperGroup. Evidence B was included in the pre-release material and taken originally from the company accounts of SuperGroup. The statement is not a mission statement in the usual sense; it was hoped that candidates could use this as a line of argument in their evaluation. The marks in this question are very much biased towards the skills of analysis and evaluation. To achieve these marks candidates needed to outline a balanced answer, once again, clearly contextualised.

*7 (a) Assess the likely importance of the mission statement (Evidence B) to SuperGroup.

(20)

A mission statement is a document detailing the corporate aims and objectives of a company, with reference to the company culture and business strategy.

Superdry's mission (evidence B) shows that the strategy is to grow in the UK and ~~abroad~~ internationally with a developing internet base whilst their culture is to offer branded clothing, designed by their in-house team, with suppliers who offer expertise in meeting exact standards and timescales.

A mission statement is valuable to businesses for numerous reasons. It is very valuable to SuperGroup's workforce in identifying where the business is heading and what the expectations of the business are. For new employees of SuperGroup, take Claire Baldwin who joined management in 2010, it allows them to see what objectives and strategies they are using which could motivate Claire Baldwin to do really well for the business. In having a bad or weak mission statement, it could make a potential employee not want to work for the business since they may not agree with the culture of the company. That is one of the reasons why a mission statement can be of great

importance to an expanding fashion retail business like SuperGroup.

Moving on, the suppliers of SuperGroup may see the mission statement and see that high standards are required meaning they will work hard to achieve these high standards.

However, in seeing that the mission statement quotes 'limited number of suppliers' could lead to suppliers charging raising the variable cost per unit seeing as they are one of the few suppliers - relating this to Porter's Five Forces - showing the suppliers have more power over SuperGroup.

Looking at the mission statement in terms of acquisitions and mergers, if the business looks at SuperGroup's mission statement and likes what they see they would be more willing to be a part of SuperGroup or to merge with them. Take CNC for example, they could've seen 'Superdry's mission' and decided to join SuperGroup because there is a mention of growth which means CNC could see potential for more profits to be made out of SuperGroup.

Furthermore, a mission statement is important in relation to time scales ~~and~~ since it was written in 2010 and they could look back at it now to evaluate whether strategy has been successful and they could use the mission statement to make sure they are keeping to original company culture.

A disadvantage of a mission statement could be that the aims and objectives of the business could've changed since in the past SuperGroup adopted a power culture with Dunkerton being the main man in charge but they have now proceeded

to a role culture. Therefore, they would regularly need to evaluate the mission statement to see what has changed which can be a timely process.

To conclude, even though it can be a timely matter, in order for SuperGroup to keep to its culture and other businesses to find out what Superdry is all about, a mission statement is very important since it can lead to a very successful business.



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Examiner Comments

Mission statements can be quite a non-specific area of the specification, with a narrow content of knowledge required by candidates. Their significance lies with how they are used and what they say - particularly in regard to stakeholder groups. Mission statements on their own are not going to be important, however, in a time of rapid change as is occurring in SuperGroup they can provide a source of unity and clarity.



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Examiner Tip

This answer is clearly written about SuperGroup and it shows a thorough understanding of the situation the business is in - for example the importance of acquisitions and business growth. Importantly, the overall conclusion is not a particularly strong feature of this answer, however, effective judgements are made and supported throughout the response. Conclusions do not need to be left until the last paragraph, but they should always be supported with evidence and reasoning.

Question 7 (b)

With 14 evaluation marks available, this question was set in order to stretch candidates abilities to construct well written arguments. The question was deliberately open-ended, allowing candidates the opportunity to draw upon a range of arguments from the unit. The highest marks were given to candidates who could make a clear judgement about the takeover and its likely success or otherwise.

* (b) Evaluate SuperGroup's decision to take over CNC.

(30)

A take-over ^{or acquisition} is when a business buys another business. In Evidence D, we learn that Supergroup is planning further expansion in Europe after acquiring franchise distribution partner CNC. To some extent, this is a good decision as it ties in with Supergroup's mission, which is "to expand both in the UK and internationally." As CNC is a franchise distributor which operates in France, Belgium, Luxembourg and France, it means that Supergroup could effectively use the established business's connections and understanding of the local markets to set up more franchised stores in Europe. This would be beneficial to Supergroup as it could lead to increased sales, increased revenue and higher profits, which could then be re-invested to achieve further worldwide expansion. However, taking over CNC could be a risky decision. This is because Supergroup may have a different corporate culture and therefore operate differently. If the two businesses fail to merge their cultures together and work in unison, a big

problems could arise and the takeover may be unsuccessful. However this can be prevented if Supergroup invests time and money into ensuring that employees reach a

common ground and understanding, perhaps by increased employee training, guidance or interaction.

Furthermore, the acquisition will allow Supergroup to benefit from economies of scale, which will reduce its costs and can lead to higher profits. It may also prove to be much cheaper to vertically integrate and operate as a whole. Supergroup will also be gaining "the CNC operational team" who "bring with them significant retail, wholesale and franchise expertise" and this is extremely beneficial as it will provide knowledge on the best way to ensure a successful expansion into Europe. If Supergroup did not have this expertise, it would be a riskier process as they would not have much experience in the markets or in expanding through Europe.

However, ~~you could say~~ to some extent, Supergroup's decision to acquire CNC is a bad one as diseconomies

of scale could arise. For example, Supergroup recently had a problem when they installed a new technological system, and this created problems with stock delivery, where stores received the wrong quantities and wrong sizes, for example they only had sizes M or XL delivered, with ~~only~~ no size S. This could indicate that Supergroup may not be able to cope with a bigger expansion and may not have the resources

available to do so.

(Total for Question 7 = 50 marks)

However, Supergroup

TOTAL FOR SECTION B = 50 MARKS

TOTAL FOR PAPER = 80 MARKS

is likely to have contingency plans drawn up in case something goes wrong and a lot of research is likely to have been carried out.

In conclusion, I think that Supergroup made a good decision in ~~deciding~~ deciding to take over CNC because it allows the business to acquire expertise and knowledge, which reduces the risk of expanding into Europe significantly, and it allows it to use the CNC distribution network in order to ~~effectively~~ effectively allow the quick opening of franchised stores. If Supergroup had grown organically and decided to enter Europe itself, it would have taken a much longer period.



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Examiner Comments

A surprisingly large number of candidates focused narrowly on the information in the pre-release material when attempting this question. This meant they were less likely to explore concepts such as 'synergy' or 'culture clash' that are important in evaluations of mergers or takeovers. Some candidates took a lot of time and space to discuss the payment methods used to finance the takeover, along with the involvement of CNCs Luc Clement. These are valuable application points, but better responses focused on the specification content and how this may or may not be relevant.



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Examiner Tip

This candidate explores the advantages and disadvantages of the takeover of CNC very clearly. They use information in the pre-release well (such as the countries that CNC operate in). The candidate also brings in other specification areas such as mission statements and contingency plans to add to the strength of the argument. However, only do this if it is relevant to the question - in this case takeovers.

Remember: ask the question posed, not one you hoped for or prepared for!

Paper Summary

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

- Make sure that they are fully aware of the content of the pre-release material and have a secure understanding of all the business terminology within it, particularly those that appear in the specification as well.
- Read the additional evidence carefully. By its nature it is intended to give you additional information and raise additional issues that are likely to be examined. As you will not have seen this information before the examination, careful reading of it at the start of the exam is time well spent.
- Practise writing in context. This means showing and understanding the business and its wider situation: its market, objectives, products or services, and the situation it currently finds itself in. Simply writing 'SuperGroup' at this level is not sufficient; candidates need to show and understand that it is a relatively new, rapidly growing, popular business, which is expanding quickly through internal external growth. This is all evident in the case study, but understanding can be deepened through wider reading of the financial press and news articles to understand current developments.
- Aim to write balanced, evaluative answers to questions: 6,7a, 7b - this means writing two-sided answers with a conclusion that answers the question directly and brings in wider contextual points that support the overall judgement.
- Practise time-management so that the last questions in particular can be given sufficient time to be answered in depth and detail. Together these questions are worth two thirds of the paper's marks, so performance on these will have a big effect on a candidate's overall mark.
- 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 help with overall time management.

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