

# Examiners' Report June 2015

## IAL Business Studies WBS04 01

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## **Introduction**

This was the first time that this exam has been taken by candidates after the full two years of the course has elapsed. Consequently, the number of candidates was significantly up on previous exams and there was a good range of marks showing that the paper had differentiated well. As in the January exam there were some very weak responses that showed little understanding of, or even familiarity with, the specification content and the standard expected of an A2 candidate this was particularly the case for questions 3 and 7. Nevertheless there were some good and occasionally very good responses to the questions set.

The main reasons for some otherwise able students underachieving are the usual ones of not heeding command words and not reading the questions carefully enough. Command words are still being ignored by a sizeable number. Instructions to 'Assess' and 'Evaluate' were not followed by some candidates.

Some of the students missed out on marks because they did not answer the question that was set. This was particularly the case with question 5. Some students missed out several whole questions.

It is worth reminding future students of the need to apply context to all responses. Repeating generic or stock answers will not access the higher levels of the mark scheme.

### Question 1 (a)

Most candidates were able to at least partially answer this question by stating a takeover meant one company was buying another. Whilst some candidates could also develop their answer to identify that this meant taking control of the purchased business, the majority who gained the second mark did so by citing Walmart's takeover of 51% of Massmart's shares as an example.

1 (a) What is meant by the term "takeover"? (Evidence A, line 6)

(2)

Takeover is when a business buys the controlling interest of another business and the business being taken over ceases to exist independently. For instance, US giant Walmart ~~of~~ took over South African retailer Massmart.



**ResultsPlus**  
Examiner Comments

A good clear answer backed up by a valid example  
2 marks in total

### Question 1 (b)

This was a good differentiator; there was a clear set of candidates who understood what was meant by 'ease of doing business' and a significant number who did not, thinking it meant the day to day operational activities of the business. A very small number of candidates elected not to answer this question. There were very few actual examples given.

(b) What is meant by the term "ease of doing business"? (Evidence A, line 8)

(2)

Ease of doing business refers to the time required to set up a for a business to set up and running. It is also the number of bureaucratic obstacles that have to be overcome. For instance, It takes a long time to establish a business. According to evidence A.



**ResultsPlus**  
Examiner Comments

Clear understanding and development of the term  
2 marks in total

## Question 2

Many candidates gave an unnecessary definition of joint ventures. Most of the candidates were able to identify CFAO's specialism in sales and distribution in Africa but a lot missed the significance of this for Carrefour. The majority of responses seen fell into the 3 mark category for identifying the need for local knowledge/application of CFAO's sales and distribution experience/costs savings to Carrefour. A surprisingly small number identified the potential for using existing distribution channels through CFAO.

2 Explain **two** reasons why Carrefour might have formed a joint venture with CFAO.

Joint venture is when a firm gets together with a local firm in order to carry out of specific project / task.

- Forming a joint venture spreads the risk, and also helps increase the sales and profitability. Carrefour has planned to open ~~and~~<sup>8</sup> new stores which would cause the sales to increase and so the profitability ↑

- It would also benefit from the local knowledge, As Carrefour would not have to carry out market research as CFAO has already specialised in African sales and distribution. This would save costs and also will give them a clear cut about the market.



### ResultsPlus Examiner Comments

The candidate has offered two reasons. The first gets a knowledge mark for sharing risk but then fails to develop this. There is an assertion about increasing sales and profitability but no development as to how a joint venture might make this happen. A reference to the extract adds nothing. The second reason is much better it gets a knowledge mark for the reason of benefitting from local knowledge, a context mark for linking to CFAO and an analysis mark for developing the consequence of saving costs.

1 mark + 3 marks = 4 marks in total

### Question 3

There was a great deal of confusion here as a large number of candidates discussed pull factors rather than push factors and as a result did not score any marks. This is surprising as this is a clear part of the specification and the only possible reason for the confusion is simply lack of knowledge. Even in those cases where they initially identified saturated markets as a push factor, many went on to describe the extension of product life cycle or discussed growth factors. A significant number of candidates did not understand the question with some discussing imports/exports and exchange rates. Several candidates described the factors of assessing a country as a production location, citing labour force availability and resources as push factors. All in all a very disappointing response to what should have been a straightforward question.

3 Analyse **two** push factors that may cause a business to trade internationally.

There may be several factors that would encourage a firm to want to expand their market and trade internationally.

If a business is facing a saturated market in their home country, it would mean that they are unable to increase sales further and so they may seek to trade internationally and expand their market as if they are at the maturity stage of the product life cycle at home, they can use the penetration of international markets as an extension strategy. This would result in increased sales and profitability.

The firms may also decide to trade internationally if they are facing increased competition from domestic and foreign firms and so they wish to expand their market in order to decrease risks and share investments over national boundaries. Therefore, a decline in

national boundaries. Therefore, a decline in demand in one country would not extensively impact the business as the risk is spread and a decline in demand can be withheld.

It is less risky and a wise decision to avoid declining domestic economic growth. Especially in

developed economies where firms are facing a saturated market due to the slow economic conditions compared to emerging markets.



**ResultsPlus**

**Examiner Comments**

This response is a good one; two clear push factors are identified and then very well developed to show why they would cause a business to trade internationally. The only thing missing is any application; this response is a generic one and is not set in a context or backed up by examples. So whilst it gained both knowledge marks and all four analysis marks it did not score either of the two application marks available.

3 marks + 3 marks = 6 marks in total

## Question 4

This question was generally well answered. The majority of candidates were able to analyse the increased competition for local businesses from Walmart and Carrefour's entry into Africa in the form of falling sales, loss of market share and potential closure. Negative impacts included the threat of being taken over with Walmart's purchase of 51% of Massmart used to illustrate the point. Of those that accessed the Level 4 Evaluation marks, the majority discussed the potential of becoming a supplier of products or ancillary services or a joint venture partner as the main positive impact on local businesses. Carrefour's joint venture with CFAO was often used as an example. A significant number also identified the efficiency of local businesses as a positive impact of increased competition but did not fully develop it.

- 4 Assess the possible impact on local businesses of Walmart and Carrefour's entry into Africa.

(10)

Africa is one of the highest developing continent and will so attract many foreign firms like Walmart to take advantage of it and improve its sales but may have many negative impacts on local business.

To begin with: the foreign firms such as Walmart have secured large economies of scale due to their sheer size as it is the biggest retailer in America which would mean it passes this of reduced cost of operating due to its size to the consumers making hence cheap products which attract hence more customers to them and local businesses are out of demand and hence close down.

To add to that there would be increased unemployment as local business close down reducing the purchasing power of the consumers and forcing even lower demand for the existing local business hence lower profits to them due to lower sales.



this business and increase their revenue and profits.

All in all in the long run there might be no significant impact of the combined local business as one will gain and one will lose and the population increase of 1.96 billion reduces the significance of the effect as the market would be very huge.

(Total for Question 4 = 10 marks)

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### ResultsPlus Examiner Comments

For the most part this is a generic answer and could be about any new large business entering a market. It has some reasonable analysis and some basic evaluation, which is enough to reach level 4 on the mark scheme. It does however, have some limited context at the start and end about Africa and so stays in level 4 and gets 8 marks.

Total 8 marks

## Question 5

This question was generally very well answered although a significant number of candidates elected not to answer at all. Many of the well-developed responses were able to access the Level 4 evaluation marks by considering factors other than disposable income when assessing whether to enter the African market. There were some excellent examples of candidates bringing in their own knowledge of companies such as Tesco, other nations and the use of the United Nations Human Development Index (HDI). On the whole, the use and application of context was good for this question. However, a significant number of candidates confused disposable income with the cash flow or capital available to Walmart and Carrefour and the subsequent discussions usually had no rewardable material.

- 5 Assess the importance of the level of disposable income when a retailer considers entering a new market such as Africa.

(12)

Level of Disposable income is a major factor when entering new markets. The main reason is because retailers prefer developing markets where the customer is able to spend causing their sales to increase. Disposable income is basically what the consumer can spend without hesitation, so therefore retailers should be aware of the level as this would help them decide what pricing strategy to use or what type of product should be sold. As the spending power the Africa's top 18 cities is expected to be \$1.3 trn retailers can have the opportunity to gain as much as sales they can.

However not only the level of disposable income should be considered by other factors as well such as the environmental or political conditions, as it is seen in Evidence C that many African countries lack the necessary physical and legal infrastructure for western retailers. which shows that it

would be pretty challenging to access these markets. It's also seen that they have quite a lot of faulty grids which means production can harshly be affected. When entering a new market retailers should also consider the government rules and regulation, which are said to be quite complicated in Africa. Even though the economic growth and the disposable income is good in Africa retailers should consider other factors as well, or else entering those markets can be quite risky.



**ResultsPlus**  
Examiner Comments

This response shows clear understanding of the importance of the level of disposable income and supports the argument by using the evidence. There is then some evaluation which is again supported by the evidence leading to a basic conclusion. This response was level 4 and gained 9 marks.

Total 9 marks

## Question 6

Most of the responses for this question were able to access the evaluation level marks. Although the majority of these evaluative answers were in the lower range, there was good use of context. Candidates showed knowledge of other pressure groups, companies and examples including Amnesty International, the Kyoto Protocol, the collapse of the Rana Plaza in Bangladesh and Coca Cola causing water shortages to farmers in India. A few responses were able to comment that despite the work of Chinese Labour Watch, it still took Samsung two years to change their practices.

In the less effective answers, there were a lot of assertions made without development or substantiation. A significant number of candidates copied directly from the case study text, which at first glance looked fluent but when examined, did not actually make any analytical statements.

There were a significant number of responses criticising the pressure groups, stating that their actions could cause unemployment to rise, production costs and therefore prices to rise or that they could be bribed by the MNCs. Bribery and corruption of government officials as well as pressure group members was a fairly common evaluative point made but candidates often did not convincingly develop this point or provide examples. There were very few blank scripts for this question.

- 6 Evaluate the effectiveness of pressure groups in controlling the actions of multinational companies.

(20)

Pressure groups are groups who do not have political power to achieve their aims but their aims lie in the sphere of politics, and they try to influence the behaviour of government and businesses. Whereas, Multinational companies are <sup>large</sup> companies with their business and operations in more than one country.

Pressure groups like CLW or Greenpeace carry out campaigns against such Multinational companies who are involved in labour exploitation or who use chemicals in their clothes. Example Samsung or other Multinationals like BAT for advertising freely their cigarettes in countries and attracting adults of under 18. Such as Samsung was alleged for exploiting labour like 22<sup>hours</sup> of labour overtime to forced overtime and providing unsafe working conditions.

If the pressure groups have a lot of power they can carry out consumer campaigns to increase awareness of ~~what~~<sup>how</sup> multinational companies exploit labour. This will produce a negative image and result in consumers boycotting their products and multinationals will see a decrease in their sales.

Moreover, ~~the~~ pressure groups like CLW can socialize these issues using internet like facebook, twitter etc which will produce a may ignore the pressure groups if the multinational companies like BAT or Samsung are ~~main~~ cause of a very high employment level or they ~~fight~~ are important to fulfil the National objects ~~for~~ examples employment, income, GDP etc.

Not only this but, some brand loyal customers may not decrease their demand for the product.



### ResultsPlus Examiner Comments

A good response that is both well written and argued throughout. The analysis is backed up by use of examples from the evidence and from the candidate's own knowledge. The evaluation is also good but perhaps not as well supported. A conclusion would have helped to lift the answer to a higher mark. Nevertheless it was a good level 4 response with 16 marks awarded.

Total 16 marks

## Question 7

This question caused problems for many candidates and once again the problem seemed to be lack of knowledge. There was a fairly even split between candidates who could correctly describe what an ethnocentric approach meant and those who did not. The candidates who did not understand would often state that Starbucks were using an ethnocentric approach and then describe all the elements of a geocentric approach. Once this incorrect statement was made it was difficult to reward with any marks since the explanation was wrong for all levels. There were even a small number of candidates who stated that an ethnocentric approach was related to the ethics of how the business conducted its marketing.

Overall, most of the candidates could identify the terms ethnocentric, geocentric and polycentric but many mixed them up when trying to define them which affected the quality of their responses. There were also a significant number of candidates that did not attempt this final question but it is impossible to know if this was due to lack of knowledge or lack of time.

- 7 Starbucks and Harley-Davidson have different approaches to their global marketing strategies.

Evaluate the benefits for a multinational company of using an ethnocentric approach.

(20)

Ethnocentric is when a business has a 'narrow minded' approach to a market. It is when a business believes that all markets are the same. This is clear with Harley-Davidson.

The benefits of a business using an ethnocentric model includes Economies of Scale. Since the business is not altering their motorbikes in anyway, they have the benefit of mass production. Mass production allows lower input costs and increasing efficiency. The increase in efficiency would mean lower costs for the business. This will allow the business to price discriminate. They will also achieve higher profit margins if they take an ethnocentric approach.

Another benefit, is that they could use the same marketing campaign for every market. By Harley-Davidson sticking to a 'theme' it means that they would not have to spend resources on market research. There would be no additional costs if the business uses the same marketing campaign. The money that would have been invested could be invested into innovation, which will help increase the businesses competitive advantage. ~~The money could be used~~ The lower costs of taking an ethnocentric approach is appealing, especially to the luxury motorbike market. Considering the market type, it would not be as different if they decided to make specific motorbikes for the country.

In conclusion, the ethnocentric can be beneficial if it is the right industry which is clear with Harley-Davidson. But, using the geocentric approach allows the business to gain the best of both worlds since it maximises advantages of both approaches. Starbucks needed to take that approach because of the product they were introducing into the market, unlike Harley-Davidson tastes and traditions ~~played a~~ plays a huge role in China's traditional market.

Ethno → Harely

- ↳ NMV ✓
- ↳ EOS ✓
- ↳ Same marketing ✓

Conc. ✓  
Geocentric  
is more  
beneficial

BUT

- ↳ Geocentric ✓
- ↳ Starbucks ✓
- ↳ higher sales ✓
- ↳ potential growth ✓

discriminate? ✓



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This is a very good response that clearly understands the various merits of different marketing strategies. It is clear and concise with good use of the evidence to reinforce the arguments. The evaluation is relevant and detailed, again well backed up with examples, leading to a perceptive conclusion. This is a high level 4 response and gained 17 marks.

Total 17 marks



## **Paper Summary**

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

- Do read the question carefully and answer the question that is set
- Do watch out for command words such as Assess or Evaluate
- Do use examples to illustrate your argument
- Do use the language of the subject and avoid generalities
- Do watch your timing and do not spend too long on one question
- Do write concisely
- Do add a conclusion to the longer questions

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