

# Examiners' Report

## June 2016

### IAL Business Studies WBS02 01

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# Introduction

This was the sixth paper for IAL Business. The performance since the last series has improved with the vast majority of candidates able to complete the paper in the time allocated. There has been an improvement in the levels of evaluation and use of context which is very pleasing. Application still is an area which candidates can improve upon and they must ensure that they are not simply using the name of the business as Application.

## SECTION A

- Supported Multiple Choice (SMC) questions are designed to assess a candidate's ability to demonstrate knowledge and understanding, application, analysis and/or evaluation.
- Candidates can only access 3 marks for part (b) if they have part (a) correct.
- Candidates are able to gain 1 Knowledge mark for a definition as given in the mark scheme for each question.
- Candidates are able to gain up to 2 marks for a full explanation of the distracters.
- Candidates **MUST** explain why their answer for part (a) is correct to be able to access all 3 marks for part (b).
- Candidates must explain **WHY** the distracters are incorrect rather than just repeating them or defining them.
- No marks will be awarded to those answers in part (b) to those candidates who simply lift or paraphrase any of the statements A-D.

## Question 1

Many candidates did not understand what is meant by a matrix structure and many were unable to get the correct answer for part (a). Many candidates confused this with the Boston Matrix. Examiners awarded a mark for an accurate definition of a matrix structure. Additional marks could be awarded for further development of why this would lead to more efficiency such as the sharing of skills and using existing resources. Examiners wanted to know why there would be increased efficiency – such as saving time or using personnel with the right skills.

- 1 (a) Starbucks Coffee has over 16,000 stores and operates in more than 54 countries. Starbucks Coffee is organised using a matrix structure.

Which is an advantage of using a matrix structure for Starbucks Coffee?

(1)

- A Direct chain of command
- B Easier to coordinate employees
- C Efficient use of resources
- D Cost effective to organise

Answer

C

- (b) Explain why this answer is correct.

(3)

Matrix structure is an organisational structure where teams are prepared from employees of different departments to handle projects. By using the matrix structure, Starbucks ensures that <sup>expertise</sup> ~~it~~ ~~the~~ required for the project are available from all available departments, so it leads to a more informed and efficient use of resources.

However there is no direct chain of command as workers in the team have to answer to team leader and their department heads. This might lead to conflict.



### ResultsPlus Examiner Comments

This scored 3 marks for part (b):

- 1 mark for the definition of matrix structure.
- 1 mark for the explanation of why this is the correct answer.
- 1 mark for the full explanation of a distracter.



### ResultsPlus Examiner Tip

Make sure you define the key term - this can be either from the correct answer or from the stem of the question. Only define one key term as only 1 mark can be awarded for this.

## Question 2

Many candidates were able to score full marks for part (a) so could access all 3 marks for part (b). Candidates could be awarded 1 mark for a correct definition or formula PED. The formula had to be correct to score the mark – must have percentage (%) change not just change. Candidates who only showed the workings without a definition or formula could only score a maximum of 2 marks for part (b). For the Application marks, candidates had to show 50% and -25% and must have the minus (-) sign for -25%. Candidates did not have to explain the result - just show the calculation and the definition/formula.

- 2 (a) In May 2014, AirAsia reduced the price of its flights from Bangalore to Goa by 25%. This led to a 50% increase in sales.

Calculate the price elasticity of demand for AirAsia's flights.

(1)

- A -0.25 p  
B -0.5 p  
C -1.0  
D -2.0

Answer



- (b) Explain why this answer is correct. (Show your working).

(3)

$$PED = \frac{\% \Delta QD}{\% \Delta P}$$

$$PED = \frac{(+50\%}{(-25\%)} = -2.0\%$$



**ResultsPlus**  
Examiner Comments

This scored 3 marks for part (b) - the correct formula and the correct workings with the percentage (%) signs and plus (+) and minus (-) signs.



**ResultsPlus**  
Examiner Tip

Always provide a formula and show all your workings. Include percentage (%) signs and plus (+) and minus (-) signs where necessary. You do not have to explain the incorrect answers.

### Question 3

This proved to be a popular question with many candidates getting part (a) correct. Many candidates were able to correctly define cash flow for 1 mark – examiners were looking for references to the movement of money in and out of a business or references to inflows and outflows. Examiners did not accept the definition of liquidity. For additional marks, candidates had to link decreasing cash flow to the inability to trade or pay for day to day running expenses, working capital, cash to pay suppliers or short term debts. The distracters had to be fully explained in order to be rewarded – candidates must say why these are incorrect and not just repeat them. Examiners wanted to know why an increase in turnover would help the business – such as it puts more cash into the business.

- 3 (a) CPW Furniture, a business specialising in the supply of pine furniture, went into liquidation in May 2014.

Which **one** of the following is the **most likely** cause of its decision to stop trading?

(1)

- A Increase in turnover
- B Decrease in cash flow
- C Increase in supplier credit
- D Decrease in labour costs

Answer

**B**

- (b) Explain why this answer is correct.

(3)

Cash flows are the cash inflows and outflows of a business. Decrease in cash flow would result in liquidation as ~~you~~<sup>it</sup> may not have enough cash to pay up its short term debts. Option A is wrong as if there was an increase in turnover it would improve the liquidity of the business as more cash enters the business.



#### ResultsPlus Examiner Comments

This scored 3 marks for part (b):

- 1 mark for the definition of cash flow.
- 1 mark for linking the correct answer to not being able to pay short term debts.
- 1 mark for fully explaining distracter A.



#### ResultsPlus Examiner Tip

You can gain all 3 marks by explaining the correct answer but this can be very difficult to do so gain additional marks by explaining up to 2 of the distracters.

## Question 4

Many candidates were able to score full marks for part (a). This proved to be a challenging question for candidates as they struggled to explain why this was an example of self-actualisation rather than just repeating the information in the stem of the question. Examiners accepted references to self-actualisation being the highest level or realisation of potential for the definition mark. Many candidates tried to explain why piecework was incorrect and examiners wanted to see why it was incorrect rather than just defining piecework. Examiners did accept that piecework is financial rather than non-financial method.

- 4 (a) Employees at 3M are allowed to spend up to 15% of their time working on creative ideas they are interested in developing.

According to motivational theorists, this is an example of

(1)

- A piecework
- B self-actualisation
- C hygiene factors
- D basic needs

Answer

B

- (b) Explain why this answer is correct.

(3)

Self-actualisation means that an employee feels they have met their potential, & are spending time to do things that interest them.

The answer is B because employees at 3M that are working on ideas that interest them, will feel more able to reach their potentials as they are spending time on what they find interesting rather than what they are meant to do for the job.

C is incorrect because ~~high~~ hygiene factors are factors that prevent demotivation such as pay or working conditions, whereas employees at 3M are being motivated by this method.



**ResultsPlus**  
**Examiner Comments**

This scored 3 marks for part (b):  
1 mark for the definition of self-actualisation.  
1 mark for the development of the correct answer.  
1 mark for explaining distracter C.



**ResultsPlus**  
**Examiner Tip**

Do not just repeat or copy out the information in the stem of the question - this will not gain you any marks.



## Question 5

Many candidates were able to get part (a) correct but failed to score many marks for the explanation of the correct answer. Examiners only allowed the definition of sales forecast – references to prediction of future sales. Candidates were rewarded for making reference to why expected sales failed to materialise or stating that the original target was unrealistic. An additional mark was awarded if the candidate said why this may have happened – such as economic conditions and poor market research. Many candidates just repeated the stem and did not explain why there has been an overestimation. Good use of the distracters in this question was often seen by the examiners.

- 5 (a) *Suzuki Motor Thailand* cut its 2014 sales forecast to 40,000 cars from an earlier forecast of 50,000.

The **most likely** reason for the reduction in sales forecast is due to

(1)

- A overestimation of sales
- B an effective advertising campaign *x*
- C less competition *x*
- D a strong economic climate *x*

Answer

A

- (b) Explain why this answer is correct.

(3)

Sales forecasting can be defined as predicting the future sales of one's products and estimating the possible income gained.

Key A is correct as an overestimation of sales would result a company like Suzuki Motors to cut its sales forecast. Overestimation

could have occurred to to a strong period of demand in the past

but ~~was~~ having a low demand due to sudden external factors.

Key B is incorrect as effective advertising would result in the demand

for cars to rise thus raising the sales of Suzuki.



### ResultsPlus Examiner Comments

This scored 3 marks for part (b):  
1 mark for the definition of sales forecasting.

1 mark for linking to external factors.

1 mark for explaining distracter B.



### ResultsPlus Examiner Tip

Always start with a definition and then explain the correct answer first. Some candidates start with the incorrect answers and then miss out the correct answer so can only score a maximum of 2 marks for part (b) if there is no definition or reference to the correct answer.

## Question 6

Many candidates were able to get part (a) correct and examiners allowed definitions of either marketing strategy or mass market. Some candidates gave both definitions but only 1 mark can be awarded for this. Examiners were looking for why TV advertising was the most appropriate – references to it reaching a wide audience, targets thousands of people and everyone watches TV. An additional mark could be awarded if the candidate took this further by linking to an increase in demand or sales. Distracter A was the most popular and this must have been related to the fact that specialist magazines are only read by a small part of the market and do not reach a wide audience or are only suitable for smaller firms aiming at a small target audience.

- 6 (a) In the UK confectionary market over 90% of sales are dominated by mass market chocolate producers *Cadbury's, Nestle and Mars*.

Which would be the **most appropriate** marketing strategy to increase sales for mass market chocolate producers?

(1)

- A Advertising in specialist magazines x
- B High prices to skim the market
- C Selling in luxury retail outlets x
- D National television advertising

Answer

D

- (b) Explain why this answer is correct.

(3)

Mass markets ~~are~~ are markets that are introduced to a standardized product for everyone. Advertising through the national television would be the best way to ~~market~~ to increase sales for mass market chocolate producers because it is seen by a wider audience and since they are catering their chocolates to everyone, it would be best to advertise using national tv where everyone can see it so more people are aware in order to increase sales. A is incorrect because specialist magazines aren't read by everyone, it only caters to a specific target market so this would be more appropriate when advertising to a niche market. B is incorrect because high prices can only be charged on unique products so it would be more appropriate when advertising to a niche market, whereas mass markets only produce a standardized product.

(Total for Question 6 = 4 marks)



**ResultsPlus**  
**Examiner Comments**

This scored 3 marks for part (b):

1 mark for the definition of mass market

1 mark for explaining the correct answer

1 mark for explaining distracters - does cover 2 distracters but has more than enough for all 3 marks for part (b).



**ResultsPlus**  
**Examiner Tip**

You can explain up to 2 incorrect answers in order to gain additional marks.

## Question 7

This was marked using a points based mark scheme with Knowledge = 2 marks, Application = 2 marks and Analysis = 2 marks. Examiners awarded 2 Knowledge marks for an accurate definition of the design mix – aesthetics, function/functional or economic manufacture. Examiners did not accept a definition of aesthetics. The Knowledge marks could also be awarded for giving any plausible reason such as making it attractive to customers and to differentiate it. Application means using the evidence provided in the case study. Many candidates simply copied out large chunks of the evidence but the evidence must be used in order to gain the marks. Examiners did not accept 'the interlocking principal of the bricks...' as Application unless it was clearly related to aesthetics. Many candidates referred to 'Unique' – again, it had to be related to the appearance – such as colour rather than the function of the bricks as this is to do with the function part of the design mix rather than the aesthetics. Application could be references to toys being aimed at children, colour or shape. For Analysis, examiners were looking for consequences – linking to things such as increased sales and repeated purchases. Examiners were looking for two separate points for the 2 Analysis marks.

7 Explain why aesthetics may be an important part of the *Lego Group's* design mix.

Aesthetics is one of the 3 elements of the design mix - a combination of factors that influence the designing of Lego products.

Aesthetics may be an important part of the Lego groups design mix because it will attract consumers to purchase them. Because lego's are in the toy industry, aesthetics add to "quality and originality" which will cause a large amount of children to purchase the lego's. As a result, lego sales will increase due to their attractiveness in colour and shape - increasing sales revenue for the Lego Group.

Another reason why aesthetics could be an important feature is that it adds to the brand image of LEGO group. This means that because the LEGO Brick is distinguished by its shape and appearance, people automatically associate it with LEGO and makes its products more attractive amongst its rivals, as a result customer loyalty will increase due to the unique appearance of the LEGO groups products.



### ResultsPlus Examiner Comments

This scored all 6 marks and is a great example of how all AOs can be achieved. The response is fully contextualised and does provides more than enough for all 6 marks.



### ResultsPlus Examiner Tip

Make sure you know all your key definitions as there are 2 marks available on Q7, 8a and 8b for giving an accurate definition.

## Question 8 (a)

This was marked in the same way at Question 7 with the same Assessment Objectives. Examiners allowed 2 Knowledge marks for either a definition of branding or for a benefit. Many candidates gave both a definition and a benefit. For the definition of branding examiners accepted anything which referred to logos, symbols, differentiation and making it distinctive. Benefits included things such as loyal customers and higher prices. Application was done better on this question and could be references to the branding being targeted at children, references to parents and unique bricks. Analysis could be any reasons why branding might be beneficial to Lego such as higher profits, repeated purchases and higher sales. There had to be two separate analysis points in order to get both marks for Analysis.

8 (a) Analyse **one** benefit of branding for the *LEGO Group*.

(6)

Branding is the process of creating a unique ~~perspective~~ perspective and image of Lego's products when compared to their rivals by customers.

One benefit of branding is that it increases <sup>Sales revenue</sup> sales. When LEGO is seen as better than rivals, more people will be aware of it and their logo will be more recognised which adds value to their different products such as LEGO city and Lego friends, so people will be ~~now~~ willing to pay more for it since it has a good reputation of being high quality and safe for children. This will allow LEGO to increase their prices with ~~a~~ inelastic PED due to loyalty and satisfaction <sup>from</sup> ~~due to~~ the positive brand image, so sales revenue will increase, and LEGO will have more capital to invest in further investment such as the new LEGO factory in China.



### ResultsPlus Examiner Comments

This scored 6 marks - a good response which starts off with a definition and then applies the benefits of branding to Lego.



### ResultsPlus Examiner Tip

Always use the case study evidence in your response but avoid just copying it out - you must use it in your response to show the knowledge and analysis.

## Question 8 (b)

This question asked for two benefits of increasing production capacity and was marked Knowledge =1, Application =1 and Analysis =1 per benefit. The 2 Knowledge marks could also be awarded for either a definition of production capacity or for giving two benefits. Application could be references such as Lego's factories in Mexico, €354m investment, the growing Asian market and China's expanding market. For Analysis, examiners were looking for references about Lego being able to cope with sudden increases in demand and not running out of stock.

(b) Analyse **two** benefits for the *LEGO Group* of increasing its production capacity.

Production capacity is the amount of<sup>(6)</sup> output, production, a business is able to produce. Its maximum. One benefit is that Lego will be able to meet the demand 'huge global demand' for its toys. By being able to produce more, it meets demand and satisfying customers. If they do not do this, if they do not meet demand then customers may be unhappy and look to competitors for products. Moreover by producing more output Lego will be able to bulk order greater amounts of stock and receive even greater bulk discounts. This will reduce the variable cost per unit, thus increasing profits. By increasing these profits they will be able to cover the €354m they spent ~~in~~ increasing their production capacity.



### ResultsPlus Examiner Comments

This scored 6 marks - the candidate not only gives a definition of production capacity but also gives two benefits. There is excellent use of the evidence rather than just copying it, and the consequences follow on from the application.



### ResultsPlus Examiner Tip

If you are asked for two benefits make sure that you clearly give two benefits and that the examiner can see where one benefit ends and the other one starts. One suggestion is that you leave a line between each benefit to make it very clear to the examiner.

## Question 9 (a)

This was marked with the following AOs: Knowledge =1 mark, Application = 1 mark and Analysis = 2 marks. As in previous papers, the 1 Knowledge mark is only awarded for an advantage and not for a definition of centralised control. Unfortunately lots of candidates did define centralised control. Examiners accepted a range of benefit such as decisions will be more efficient, decisions are quicker and there is consistency. Application could be that Lego has other sites around the world and references to the toys or bricks. The 2 Analysis marks were awarded for the consequences of having centralised control such as reacting to shocks, implementing decisions without having to consult, efficient flow of communication to ensure opportunities are not missed, to ensure customer satisfaction and less time wasted. Many candidates did give unsupported assertions that the management in Denmark were better at making decisions and this was not rewarded.

- 9 (a) Explain **one** advantage to the *LEGO Group* of having centralised control through its headquarters in Denmark.

(4)

Centralisation is when decisions of a product in a business is done by the high level managers of a company. LEGO having a centralized control through its headquarters enables them to have consistency throughout the business. The decisions about the prices of the lego bricks would be done in Denmark and spread through all the LEGO groups <sup>in other countries</sup> world wide which would make the price of all LEGO bricks <sup>the same</sup> every shop. As consistency is kept customers would be satisfied and it would lead to repeat purchases for LEGO.



### ResultsPlus Examiner Comments

This scored 3 marks overall and 1 mark was awarded for having consistency, 1 mark for application - references to lego bricks and then 1 analysis point - satisfied customers/repeat purchases. This response needed further development to score both analysis marks.



### ResultsPlus Examiner Tip

Do not define the key term in Q9a. The Knowledge mark will always be for the reason, benefit or factor asked for in the question.

## Question 9 (b)

For the Levels of Response questions (9b, 10 and 11), there had to be context to access Level 4 otherwise top Level 3 was awarded. If there was Analysis but no context, then top Level 2 was awarded. Using the name of the company – Lego or any context from the stem was not classed as application or context.

For this question, examiners were looking for Analysis in the form of benefits of using a recruitment agency such as finding skilled employees, saving time for Lego, finding best possible candidates, having a wider range to choose from and reducing the burden finding new employees. Level 3 had to be in context and marks were awarded according to the quality of the response. Analysis with no context was restricted to Level 2 – 4 marks only. Evaluation had to be in context to enter Level 4 and many candidates referred to the cost of using a recruitment agency compared with either recruiting internally or Lego doing the recruitment themselves. Evaluation with context on one side only was awarded 7 marks and Evaluation with context on both sides was awarded 8 marks. Evaluation with no context could only achieve Level 3 – 6 marks

2 (b) Evaluate the use of a recruitment agency by LEGO Group to hire its new employees. (Evidence C)

no prompt  
to find

(8)

Recruitment is the process in which a business finds ~~new~~ ~~employees~~ employees, internally or externally, to fill positions in the business. A recruitment agency is an agency that is used by a business to find <sup>employees</sup> ~~employees~~ to fill these positions. On one hand this will benefit Lego as it takes the pressure and opportunity cost of giving up time, off of them and onto the recruitment agency. This will allow Lego to focus on its day-to-day runnings and its expansions. For example instead of worrying about and putting time into the recruitment process, Lego can focus on its different



expansions in London, Singapore, Shanghai and Connecticut. However by delegating this role onto the recruitment agency Lego are trusting them with finding the right workers. While these workers may be skilled they may not be as motivated to the Lego brand as Lego may want them to be. Lego's image of a high quality business may be put at risk. This would only be achieved if Lego carried out the process themselves. Moreover by using this recruitment agency Lego will have to pay a high cost, as Lego are already trying to cover the €354m for expansion ~~and~~ this could make their cash flow worse.

(Total for Question 9 = 12 marks)



**ResultsPlus**

**Examiner Comments**

This scored 8 marks - there is evaluation with context on both sides so it reached the top of Level 4.



**ResultsPlus**

**Examiner Tip**

Make sure you give context on both sides otherwise you will restrict your overall mark.

## Question 10

Many candidates were able to use the evidence to explain why quality was important to Lego so they could access Level 3. There was lots of Application which the candidate could use and examiners were looking for references to zero product recalls and the product being aimed at children so it had to be good. Analysis had to be focused on how this helped Lego to gain sales and repeat purchases, and maintain its reputation. Many candidates were able to give some analysis and if this was in context they could access Level 3 for a one-sided response. As in all levels of response questions, if context was missing, then this restricted the level the candidate could reach. There had to be context to enter Level 4 and marks were awarded in this level according to the quality of the evaluation. On the whole this question was popular with candidates with many getting into Level 3.

10 Assess the importance to the LEGO Group of maintaining high quality in its products.

(12)

LEGO group has been renowned for its quality with their main aim being guarantee of originality ~~and~~ quality. Therefore in order to protect its brand image, it is vital that the LEGO group maintains high quality in its products. Products that ~~are~~ are defecting may cause disloyalty among consumers especially among such a sensitive market like childrens' toys. A single damaged product could cause many parents to disapprove of the product and through word of mouth and social media, the reputation of the whole business would be harmed, ~~therefore~~ This would cause a deterioration of sales and revenues and may prove to be detrimental to the LEGO group. Further a high quality products generally appeal to consumers and quality is an important factor considered when consumers demand goods and services and <sup>maintains</sup> so quality would be of great importance <sup>LEGO group</sup>. However there are other factors besides quality that affect decisions relating to purchasing. Children do not generally take <sup>quality</sup> into great consideration when asking/buying a good a service. Factors that they deem more important ~~are~~ include popularity, the way the packaging looks, the features of the toy etc. They are more affected by the short term use of the toy. Teenagers would take into consideration the price of the Lego pieces and not necessarily its

quality. Price would affect parents too, as if the toy is priced too high, <sup>because of its high quality,</sup> it may act as a deterrent towards purchasing this for their children as toys aren't considered a necessity. Parents wouldn't want to spend a large proportion of their income on it.

Furthermore higher quality means higher costs as money has to be spent on quality management and more expensive raw materials. This would raise average costs and lower profit margins for the LEGO group, and especially if children do not take quality into great consideration, it would be a waste of their resources and an unnecessary loss of profit.



**ResultsPlus**

**Examiner Comments**

This scored 11 marks and was placed at the top of Level 4. It is very detailed and has context on both sides of the response.



**ResultsPlus**

**Examiner Tip**

Think about the target audience of the business in the case study and the type of products or services they sell. This is a great way to contextualise your response. Remember that anything in the question cannot be classed as Application/context.

## Question 11

This was also a Levels of Response question and was the highest mark question on the paper. Again, there had to be context to enter Level 4. Many candidates were able to provide analysis in context and gave the importance of the product lifecycle so accessed Level 3. Examiners saw a wide range of benefits such as helping Lego to know when to launch new toys, advertising, extension strategies and when to divest toys. Disadvantages of the product lifecycle could include anything from it only being a prediction, it is difficult to apply and does not take into account external factors. In order to access high Level 4 marks, more depth and discussion in context is needed by candidates.

11 Evaluate the importance of the product life cycle to the LEGO Group.

(14)

The product life cycle is the stages that LEGO's products go through (development, introduction, growth, maturity) from entering the toy market, to leaving it.

The product life cycle is important as it helps LEGO make decisions <sup>on</sup> regarding each product regarding investment and finance. For example, after the successful growth of LEGO Friends, LEGO is able to understand that it has entered the maturity stage, therefore they decided on an extension strategy - expanding its theme or developing Chima's story - in order to prevent it from falling into the decline stage of the life cycle. This means that they are able to decide on how much they need to spend on each ~~product~~ toy to extend its ~~life~~ life cycle, so toys will be more successful and will bring in more revenue due to improved allocation of resources.

However, the ~~life~~ life cycle may be misleading as it is not the same for all products. For example, the LEGO brick was launched in 1958, and although it is deep in the maturity stage as it is 'Toy of the century', there is no sign of decline for the brick, so ~~the~~ unnecessary spending may occur on the brick to extend its life by ~~making~~ promoting it although it may not be needed.

I think the life cycle is important for LEGO as it helps them know where each product is and how to manage spending, however ~~this~~ this depends on how much market research is done to help ~~them~~ make decisions as competitors and trends need to be analysed & before making significant changes to the products.



**ResultsPlus**  
Examiner Comments

This scored 12 marks and was placed at mid Level 4. There was plenty of evaluation with context on both sides. A contextualised conclusion would have lifted the mark to either 13 or 14 marks depending on the quality of the conclusion.



**ResultsPlus**  
Examiner Tip

Always give a contextualised conclusion for the 14 mark question after you have evaluated.

## Paper Summary

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

- Read the Supported Multiple Choice carefully in terms of most likely and least likely. Many did not spend enough time doing this and did not fully develop their reasons as to why distracters are incorrect.
- Contextualise responses both in Section A and Section B. This is particularly important for Section B where Level 4 can only be accessed if the response is in context.
- Pay attention to the command words - Assess and Evaluate are largely ignored and this will restrict marks to Level 3.
- Use business concepts rather than generic 'common sense' answers.
- Read and use the Evidence provided - it is there for a reason.
- Show your working for any calculation questions and include the percentage (%) signs and plus (+) or minus (-) signs where necessary.

## **Grade Boundaries**

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