

Examiners' Report
June 2016

GCE Business 8BS0 02

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Introduction

This report is focused on the second paper 8BS0 02 'Managing Business Activities' that makes up the AS level in Business for the new specification. This report should be used by centres in order to provide teachers and candidates with further guidance as to how to approach answering question. It could be used as one of the tools which can help candidates maximise their ability to score marks in future examination series.

Of particular note in this new specification is the new approach taken with levels of response questions. These questions (1(e), 1(f), 2(e), 2(f) and 3) are marked using a line of best-fit approach. Thus, examiners have to make a judgement regarding which level descriptor best matches the answer. This is a change to what has been used in the past and the mark scheme is now much less prescriptive. This flexibility is created because the mark scheme does not include caps for lack of contextualisation, etc. For example, a candidate may write a very detailed, accurate answer with plenty of evaluation to an 8 mark 'assess' question. Thus, the response is likely to be placed in Level 3. However, in the past, lack of contextualisation may have prevented the candidate from attaining above a certain mark, i.e. a cap on achievement. The new levels of response mark scheme allows an examiner to balance the lack of contextualisation against the relative merits of the answer's knowledge, analysis and evaluation. Therefore, assuming the candidate has provided knowledge, analysis and evaluation worthy of 8 marks, on balance the lack of contextualisation may result in the candidate only achieving 6 marks instead. This approach should be fairer to candidates since it allows high-quality answers that, lack a certain element of written skill, not to be as heavily penalised as they were in the past. It also provides candidates with greater scope to approach questions in 'no one set way' since examiners are looking for the quality of written skill in each of the assessment areas the question is designed to test. This should reduce the importance of 'writing frames' as a way to score marks at the top-end of the high-tariff questions.

Question 1 (a)

This question was a knowledge question. Examiners were looking for a definition that was accurate and had two strands within the definition in order to award 2 marks.

1 (a) What is meant by limited liability?

(2)

limited liability is where a company is
covered for by investors.



ResultsPlus
Examiner Comments

This response shows no understanding at all. At AS level standard, this GCSE concept should be understood. 0 marks awarded.

1 (a) What is meant by limited liability?

(2)

Limited liability is when the owner and the
business have separate legal identities.



ResultsPlus
Examiner Comments

This is a more able response, since it shows some understanding. However, it is not a full definition and it just makes a simple point. The required 'two strands' are missing. 1 mark is awarded.

1 (a) What is meant by limited liability?

(2)

Limited liability occurs when the owners / Shareholders of a business have a separate legal identity from said business. If debts are owed they will only be seized from business assets and not owners private ones.



ResultsPlus
Examiner Comments

This final response should highlight the difference between the previous two responses. This response is accurate and satisfies the 'two strands' rule. 2 marks are awarded.



ResultsPlus
Examiner Tip

Candidates may want to think in terms of strands when they write answers to definition questions. This could be done by reading back their answer and raising a finger when the candidate provides a strand. This may help candidates score 2 marks, rather than 1 for questions such as these.

Question 1 (b)

This question is another 2 mark definition question. The same points that were made to question 1(a) apply.

(b) What is meant by fixed costs?

(2)

Fixed costs is a figure that stays the same in a specific time period.



ResultsPlus
Examiner Comments

This answer only has one strand. The candidate has recognised that fixed costs 'stay the same' (1 mark) which is worthy of some credit, but critically they have not linked the definition to 'output'. 1 mark is awarded.

(b) What is meant by fixed costs?

(2)

Costs that don't change with output eg. rent



ResultsPlus
Examiner Comments

This response has the required two strands 'costs that don't change' (1 mark) is linked to 'with output' (1 mark). 2 marks are awarded.

Question 1 (c)

This question was the first of three quantitative questions on the paper. Candidates were unable to score marks, in most cases, through not being able to apply the formula correctly to the set of information provided by the question. In quantitative questions examiners have been instructed to award 4 marks if the correct answer is seen. However, not providing any formulae or workings would result in 0 marks being awarded if the candidate made a small arithmetic 'slip'.

- (c) Using the data in Extract B, and assuming a sales volume of 20 schools in 2015, calculate Backpack Ltd's likely profit. You are advised to show your working.

(4)

$$\text{Profit} = \text{selling price} \times \text{variable costs} = 2000 \times 200 = 400000.$$

$$\text{Break event} = \frac{\text{Fixed cost}}{\text{Contribution}} = \frac{\text{Fixed cost}}{\text{Contribution}}$$

$$= \frac{10000}{1800} = 5.5\%$$



ResultsPlus Examiner Comments

The candidate does not know the formula for profit and has mixed it up with break-even. 0 marks awarded.

(c) Using the data in Extract B, and assuming a sales volume of 20 schools in 2015, calculate Backpack Ltd's likely profit. You are advised to show your working.

(4)

$$\text{Profit} = \text{Revenue} - \text{Costs}$$

$$\text{Break-even level of output} = \frac{\text{Fixed costs}}{(\text{Selling price} - \text{variable cost})}$$

$$\frac{10,000}{2000 - 200} = 5.5$$

$$\text{revenue} = 2000 \times 20 = 40000$$

$$\text{Total costs} = 10,000 + 200 = 10200$$

$$40,000 - 10,200 = \underline{\underline{£29,800}}$$



ResultsPlus Examiner Comments

This candidate knew the profit formula (1 mark) and was able to calculate revenue at £40,000 (1 mark). However, the calculation of total costs was flawed since the variable cost per app had not been multiplied by the number of schools. This then led to an incorrect final answer. 2 marks are awarded.



ResultsPlus Examiner Tip

Always show your working and the formula used. Even if you make an error you could score some marks.

(c) Using the data in Extract B, and assuming a sales volume of 20 schools in 2015, calculate Backpack Ltd's likely profit. You are advised to show your working.

(4)

$$\begin{aligned} \text{Selling price} \times \text{Sales volume} &= \text{Sales Revenue} \\ = £2,000 \times 20 &= £40,000 \end{aligned}$$

$$\begin{aligned} \text{Profit} &= \text{total costs} \\ £40,000 - £10,000 - (£200 \times 20) \\ &= £30,000 - (£4,000) \\ &= £26,000 \end{aligned}$$

$$\Rightarrow £26,000$$



ResultsPlus
Examiner Comments

The candidate has provided the correct answer of '£26,000' but also a clear route as to how this figure was arrived at. 4 marks are awarded.

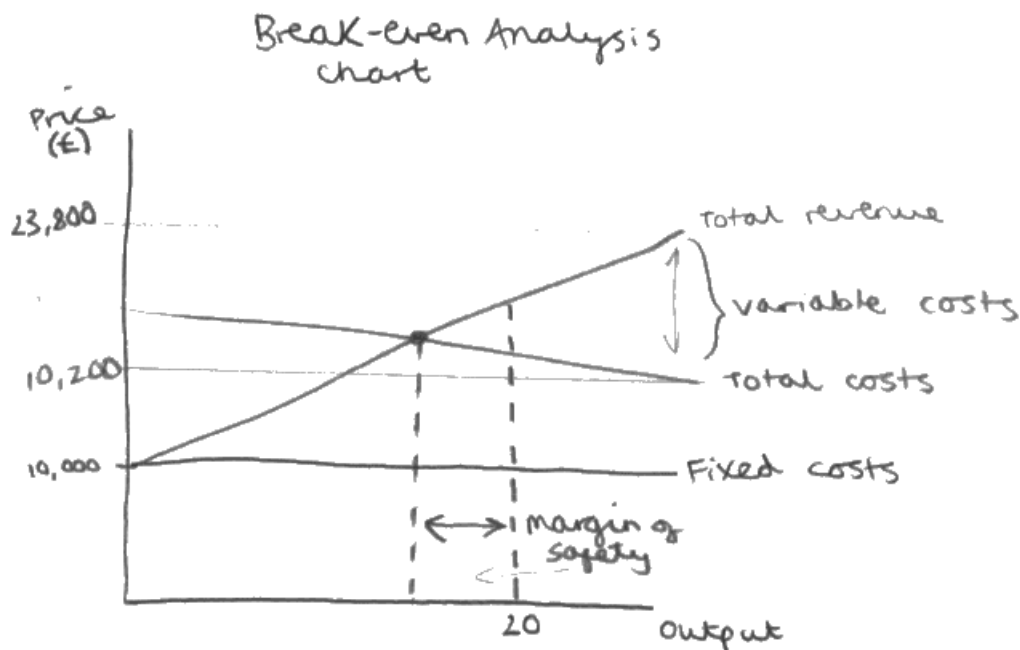
Question 1 (d)

This was another quantitative questions and the approach to marking was the same as in question 1(c). What was particularly disappointing though was that a much greater proportion of candidates did not have any knowledge of what the margin of safety was.

- (d) Using the data in Extract B, and assuming a sales volume of 20 schools in 2015, calculate Backpack Ltd's likely margin of safety. You are advised to show your working.

(4)

The margin of safety is the space between the break-even point (no profit and no losses are being made) and the volume of sales.



ResultsPlus
Examiner Comments

In this response the candidate just demonstrated raw knowledge. The candidate was able to define the margin of safety and back this up with a graphical representation of the same point. At no point was a calculation attempted. However, these questions only have 1 knowledge mark available so only 1 mark is awarded.

(d) Using the data in Extract B, and assuming a sales volume of 20 schools in 2015, calculate Backpack Ltd's likely margin of safety. You are advised to show your working.

(4)

20 Schools

Margin of safety = current output - breakeven point

$20 \times 2000 \times = 40,000.$

Breakeven output = $\frac{\text{Fixed cost}}{\text{Contribution}}$

$$\frac{10000}{1800} = 5.55$$

Current output 20 - 5.5 = 14.5



ResultsPlus Examiner Comments

This response shows the margin of safety formula, and includes a calculation which is accurate. The answer looks to be heading towards full marks but the candidate failed to round up the break-even level of output to a whole number. This had the knock-on effect of making the margin of safety calculation inaccurate. Thus, only 3 marks are awarded.



ResultsPlus Examiner Tip

This issue was highlighted in the Sample Assessment Materials (SAMs). A firm cannot break-even at a fraction of a unit of output. Therefore if the break-even point is 5.55, it must be rounded up to a next whole number up i.e. 6.

(d) Using the data in Extract B, and assuming a sales volume of 20 schools in 2015, calculate Backpack Ltd's likely margin of safety. You are advised to show your working.

(4)

$$\text{break even} = \frac{\text{Fixed cost}}{\text{contribution}} \quad \text{contribution} = \text{selling price} - \text{variable cost}$$

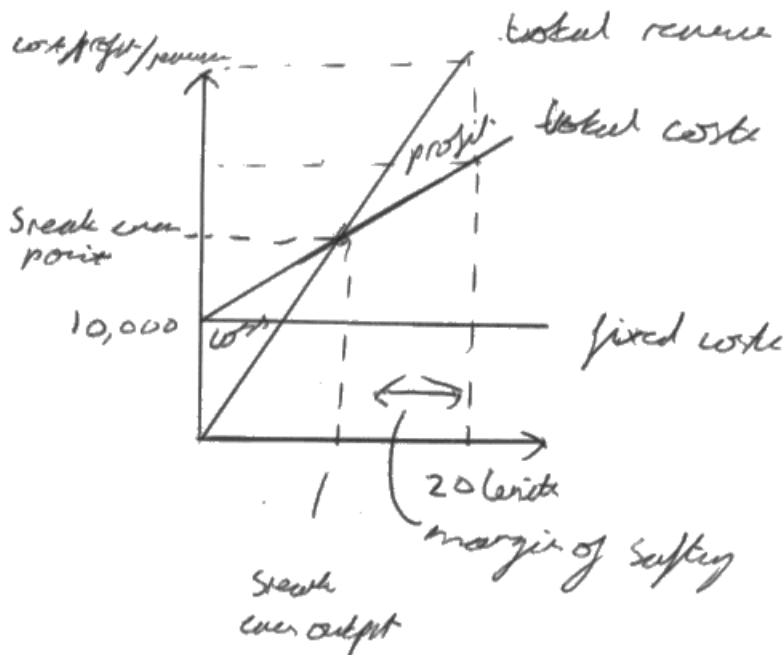
$$= \frac{10,000}{18.00} = 5,555... \text{ units}$$

you can't have half a school
so I will round it up to 6 school

$$\therefore \text{margin of safety} = 20 - 6 = \underline{14 \text{ schools}}$$

The margin of safety are the number of ^{Schools} units Backpack Ltd ~~can drop before they stop making profit~~ ~~can drop before they stop making profit~~ can drop before ^{go below} ~~reaching~~ the break even point before they stop making profit.

$$\text{margin of safety} = \text{current output} - \text{break-even output}$$





ResultsPlus

Examiner Comments

This candidate goes above and beyond what is required to score full marks on this question. The candidate has clearly ended up at the right answer of '14 schools' and what followed was unnecessary. 4 marks are awarded.



ResultsPlus

Examiner Tip

Do not go beyond the scope of the question. This candidate probably wasted 3 minutes of time on writing unnecessary further comments and adding a graph. This time could have been better spent elsewhere.

Question 1 (e)

This question is the first question where examiners are required to make a judgement and apply a line of best-fit approach to determining which level and which subsequent mark the response should be awarded. The principles of marking adopted here are the same as for question 2(e). In the main, this question was answered well. However a sizable proportion of the cohort failed to act on the command word of 'assess' which resulted in one-sided answers which contained no evaluation.

(e) Assess **two** advantages to a small start-up company, such as Backpack Ltd, of using venture capital. *Advise*

Funding risky projects

(8)

Venture capital is funded by venture capitalists.
They invest when they give the business a fixed amount
in return for a share in the business (Similar to
'dragons den').

This is good for small start-ups as it allows
them to fund risky projects that the bank may
not want to take up.

They are venture capitalists who have experience being
an entrepreneur, and they also have networks (contacts).
This allows them to advise the business, as well
as allowing the business to have the right contacts
with the right people/business.



ResultsPlus Examiner Comments

This answer is placed in Level 2. The candidate knows what a venture capitalist is and can make some simple points about the advantages of venture capital to a business. There are some incomplete chains of reasoning. This answer attempts to include application since one point is contextualised around small start-ups. However, there is no evidence of contextualisation and the response is one-sided. Thus, the answer goes beyond the scope of Level 1 in the mark scheme, but does match the Level 3 descriptor. The lack of assessment means that the bottom of Level 2 is more appropriate. 3 marks are awarded.

(e) Assess **two** advantages to a small start-up company, such as Backpack Ltd, of using venture capital.

(8)

~~venture~~ Venture capital is a form of raising finance where money is given to a business by a venture capitalist usually in exchange for equity in the business.

One advantage of raising finance through VC is that the investors are often willing to give their expertise for the running of the business. For Alistair, this could be the help of someone who has experience selling through an online marketplace. This is limited however, as a venture capitalist could be very demanding about the running of the business as they are more keen to get dividends and a return on their investment.

Another advantage of using a venture capitalist is that they will not require you to pay interest on the money they give you, or even give it back, as they instead take a share of the business. This is good for Alistair's business as it is a new start up company which is small and needs to focus in this critical period on expanding and just having working capital. However, the sale of shares to a VC is limited as a source of finance as they will take a proportion of the dividends if Alistair's business is successful, which may force him to have to buy them out later at a greater cost.



ResultsPlus

Examiner Comments

This candidate demonstrates good knowledge and knows what a venture capitalist is. There are two advantages both of which have some evidence of contextualisation. There is also evidence of some simple evaluation of both advantages. In applying the mark scheme to this response the Level 3 descriptor appears to be the one most appropriate. However, the analysis could have been more detailed and include more chains of reasoning. Therefore, the response is placed at the bottom of Level 3 and 6 marks are awarded.

(e) Assess **two** advantages to a small start-up company, such as Backpack Ltd, of using venture capital.

(8)

Venture Capitalists are people who invest in a small but high risk company for a % share.

One advantage of Backpack Ltd using venture capital is that Backpack Ltd can gain vital mentoring from the business angle, this is ~~more~~ because the business angle will likely have experience, this is important as the case study states that Backpack Ltd is a relatively new business, this means that the venture capitalist can lower the risk, ~~and~~ ~~cost~~ which is particularly important because it will increase chance of business survival, However, a venture capitalist would only be truly beneficial if they had experience in the tech industry.

Another advantage of Backpack using venture capital is that it will have no repayments or interest to pay. This is beneficial because ~~the~~ Backpack is a 'start up' and therefore will be unlikely to be able to repay large loans, this means that backpack can focus on investing into the product rather than meeting bank repayments. This is particularly important as they want to increase the chance of business survival. Which will be more likely if they can invest in their product so it meets customer needs.

However, venture capital means giving up some control, ~~and~~ ~~that~~ which could cause conflict over the direction of the business which in some circumstances could lead to business failure.



ResultsPlus
Examiner Comments

This answer provides a good contrast to the previous one. The answers are similar in approach, but what should become immediately apparent is that this candidate has provided many more coherent chains of reasoning (analysis) within their response. There is also very strong knowledge and application. However, the evaluation, although it exists, is a touch simplistic and similar in scope to the previous response. However, on knowledge, application and analysis, a mark within Level 3 seems most appropriate. Thus, the response is awarded 7 marks.

Question 1 (f)

This question was widely misinterpreted since candidates did not read the question closely enough. Many candidates thought that this question required them to simply evaluate the importance of a business plan. However, the question included '*as a means to obtain finance for a small start-up company*' and more often than not this meant that many answers were on the edge of answering the question, but did not actually answer the set question. This is because the content contained within the answers had little relevance to a small start-up business requiring finance. The comments made regarding how this question was marked can also be applied to question 2(f). Again lack of evaluation and lack of context meant that many answers ended up in Level 2 or 3 depending on the quality of the written skills demonstrated.

(f) Assess the importance of a business plan, as a means to obtain finance, to a small start-up company, such as Backpack Ltd.

(10)

A business plan can really help a small company such as 'Back Pad Limited'. They can help structure how a company formulates its profits and loss accounts and so on.

Without a ~~is~~ business plan I feel that the company will not ~~is~~ obtain a good enough profit through start ups.

A business plan can show a company how profitable it will be so they know what to expect~~s~~ in their opening months.

A business plan is very important to a small business as it can help them make ~~do~~ ~~of~~ ~~money~~ ~~is~~ revenue soon after opening. This is because they can plan for changes in the market, and adapt products and promotions for these stages.



ResultsPlus
Examiner Comments

Despite the length of this response, very little of it actually answers the set question. The candidate has just made vague points about a business plan which are not developed. There is no analysis, application or evaluation. The response is placed in Level 1 and awarded 1 mark.

(f) Assess the importance of a business plan, as a means to obtain finance, to a small start-up company, such as Backpack Ltd.

(10)

A business plan is a document someone has whilst setting up the business and it contains many different things such as the aims & objectives of a business and the cash flow forecast for the business.

A ~~good~~ ~~plan~~ ~~forecast~~ business plan is a very important document when it comes to obtaining finance especially to a small start up business such as Backpack Ltd. It is important as it means when the business goes to the bank to potentially get a loan then they have a business plan to show to the bank which shows them they have a good business idea and that it will be profitable because without it then the bank will just see an 18 year old with an idea but nothing to say they'll get their money back.

However in the business plan if he has messed up whilst doing it and he hasn't done as well as he had predicted then he will have to pay the money back ~~anyway~~ no matter what but that is why he made it a Ltd so he couldn't lose any personal assets so it isn't that bad.

Overall he needs to have a business plan as it means he can gain finance much easier and get more of it to cover the £20,000 start up ~~for~~ costs.



ResultsPlus
Examiner Comments

This is a more able response. The candidate attempts to build chains of reasoning, although most of what is written is common sense and there is some attempt at application. The response has evaluation but it is contrived and not really valid. Using the line of best fit approach, Level 2 seemed most appropriate. 3 marks are awarded in total.

(f) Assess the importance of a business plan, as a means to obtain finance, to a small start-up company, such as Backpack Ltd.

(10)

A business plan outlines the main aspects of the business and the purpose of the firm, such as the financial forecasts^{and} mission statement. A business plan might be important to Backpack LTD for obtaining £20,000 because investors or banks would want to see a successful business plan which reflects the potential and future success of the business. For example, a bank would need to see the business plan to view the cash flow forecasts of the company to check the ability of the business to meet day to day expenses and pay of short term debts. If the bank is not satisfied with the business plan, which it was not for Backpack LTD, it may choose not to invest as it is worried the firm will not be able to pay back the loan and interest if cash flow is not successful. However, a business plan might not be important to Backpack LTD because they ~~have~~ are a start up company so the financial forecasts would be limited and not able to show whether there is demand for the app or not because the business has only been running since 2012, so the source of finance such as venture capitalists might not be worried about the business plan and willing to take the risk of investment because they believe in the idea of the homework planning app. Another reason a business plan would be important to backpack LTD to obtain £20,000 is because the sum of money they are asking for is large so the venture capitalists or bank might ~~be~~ doubt the ability of the business to pay them back. For example venture capitalists might be worried they will not receive their percentage of the profit as the business has limited liability ~~so~~ is not personally responsible for the debt of the

business, meaning venture capitalists would need to be persuaded through the business plan and financial forecasts that the demand is there for the product, for example the previous sales volume of 20 in 2015 may indicate there is demand for the product so venture capitalists feel confident to invest. In conclusion, I think a business plan is very important for Backpack LTD to obtain finance because the bank did not provide them with a loan based on the failure of their business plan. (Total for Question 1 = 30 marks)

So it is important Backpack LTD improves its business plan to persuade venture capitalists to invest the large sum of 620,000 in the company

TOTAL FOR SECTION A = 30 MARKS



ResultsPlus
Examiner Comments

This answer is a complete contrast to the other two responses. There is clear knowledge, application, analysis and evaluation all worthy of Level 4 on the mark scheme. The candidate also, critically, answers the question and this response is focused around raising finance and importance of a business plan in allowing that to happen. Unsurprisingly, this response scores at the top of Level 4 and 9 marks are awarded.



ResultsPlus
Examiner Tip

Make sure you read the question. Many candidates interpreted this question as just requiring the pros and cons of a business plan, when actually the question was asking for something much more specific.

Question 2 (a)

This definition question was marked in exactly the same way as 1(a) and 1(b). Examiners were instructed to look for two accurate strands within each response. This question was poorly answered since many candidates thought that current assets had something to do with fixed and variable costs.

2 (a) What is meant by current liabilities?

(2)

Current liabilities is what a business owes to its creditors.



ResultsPlus Examiner Comments

This candidate has demonstrated one strand of understanding 'owes to its creditors' (1 mark) but there is no second strand that deals with the word 'current'. Therefore, 1 mark is awarded in total.

2 (a) What is meant by current liabilities?

(2)

Current liabilities are ~~from~~ short term debts the business owes, for example these can be overdraft repayments or if the company has payed for an item over trade credit and needs to pay for it in under 60 days.



ResultsPlus Examiner Comments

This candidate has two accurate strands 'short-term debts' (1 mark) is linked to 'the business owes' (1 mark). 2 marks are awarded in total.



ResultsPlus Examiner Tip

As with questions 1(a), 1(b) and 2(a), candidates could be provided with a definitions sheet to learn. Only the key terms mentioned in the specification will ever be tested so this list is not actually that long. In many cases, this could have added 2-3 marks to a candidate's performance.

Question 2 (b)

This question required candidates to give examples of two non-current assets from the Statement of Financial Position. Examiners were instructed to only mark the first two examples listed, since some candidates took the approach of listing everything they had ever heard of in the hope of 'getting lucky' and securing 2 marks. A sizable proportion of candidates could not distinguish between 'non-current' and 'current assets'.

~~(a)~~ Give **two** examples of non-current assets that a business may have on its Statement of Financial Position.

(2)

~~Products (clothes)~~

Machines used to making the products - clothes

~~Raw~~ Raw materials - such as garment



ResultsPlus
Examiner Comments

This response scores 1 mark for 'machines' since the other answer 'raw materials' is part of inventory/stock and would be an example of a current asset. 1 mark is awarded in total.

(b) Give **two** examples of non-current assets that a business may have on its Statement of Financial Position.

(2)

- Machinery

- Van



ResultsPlus
Examiner Comments

This is the ideal approach to this question. Two accurate examples are provided and the candidate has secured 2 marks. There is no requirement for any further explanation. 2 marks are awarded.



ResultsPlus
Examiner Tip

In a question that asks you to provide examples, there is no requirement to provide any further explanation. Two words in this question would have secured full marks.

Question 2 (c)

This is the third and final quantitative question on the paper. Again candidates either knew the formula or did not. There were many 0 mark answers to this question.

- (c) Using the data in Extract C, calculate the current ratio for SuperGroup Plc in 2014.
You are advised to show your working.

(4)

current assets

current liabilities

$$\frac{86.2 + 77.8}{73.1} = 2.24$$



ResultsPlus
Examiner Comments

This candidate knows the formula, (1 mark) but does not know how to calculate current assets in order to move on and provide an accurate response. 1 mark is awarded in total.

- (c) Using the data in Extract C, calculate the current ratio for SuperGroup Plc in 2014.
You are advised to show your working.

(4)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{current assets} = 86.2 + 77.8 + 54.3$$

$$= \pounds 218.3 \text{ million}$$

$$\text{current ratio} = \frac{218.3}{73.1}$$

$$= 2.98 \quad \uparrow = 3$$

current assets: current liabilities

3 : 1



ResultsPlus
Examiner Comments

This exemplar is a complete contrast to the previous one. There is a clear logic behind the setting out and the correct answer is provided allowing the candidate to secure 4 marks.



ResultsPlus
Examiner Tip

This answer required candidates to produce a number that was not whole, thus the exam team accepted 2.98, 2.99 or 3 depending on how candidates rounded their answers. In future exam papers the questions will state that answers must be given to 2 decimal places. Centres should practise this style of question to prepare for this change with future cohorts.

Question 2 (d)

This was a poorly answered question for two reasons. The first reason was that candidates had little accurate idea as to what 'working capital' was mixing it up with 'profits, revenues and costs'. The second reason was because candidates provided limited/no context within their responses. In the mark scheme there are 2 A02 marks for application/contextualisation available. Thus, accurate generic answers failed to score above 2 marks due to the lack of appropriate application. Therefore, the 'explain how' questions must include two different distinct elements of application to allow 4 marks to be scored.

(d) Explain how poor management of its working capital might affect SuperGroup Plc.

(4)

Working capital is the machinery ~~and~~ used by a firm to produce products. Poor management of working capital, especially under JIT production would ~~be~~ create a loss in profit for Supergroup Plc because if machinery isn't at its best use then demand will not be met meaning that customers wanting to buy products will not be able to, leaving them annoyed. This will make them take their business elsewhere meaning Supergroup Plc won't only have lost that sale but future sales because they will have lost brand loyalty.



ResultsPlus
Examiner Comments

This is typical of many answers to this question. There is nothing in this response that actually answers the question. 0 marks awarded.

(d) Explain how poor management of its working capital might affect SuperGroup Plc.

(4)

Working Capital is the current assets minus the current liabilities. One of the main external causes of failure is when liabilities outweigh assets, thus meaning SuperGroup Plc will not be able to pay all of its bills. Poor management could be due to not turning enough of its assets into cash, such as holding stock for too long. This can be improved by selling unused assets, postponing planned investments, prolonging trade credit so that it does not have to be paid back. Improving its working capital will increase SuperGroup's profitability.



ResultsPlus

Examiner Comments

This candidate has a clear understanding of what working capital is and provides knowledge by way of a definition and then develops this further. However, the answer is purely generic resulting in the candidate only being able to score 2 marks. This response is typical of the ones provided by good candidates and was a source of under-achievement on this question.

(d) Explain how poor management of its working capital might affect SuperGroup Plc.

(4)

Working capital is the finance require is day to day working and functioning. A poor management of working capital might affect the cash flow in SuperGroup Plc. Since Superdry is a popular fashion brand with 338 of its own store, which means ~~the~~ ^{the superdry} is expanding in a very rapid rate. Day to day payments to suppliers turn out to be very expensive. Therefore ~~working capital~~ a poor management of working capital would leads to a fall in paying bills to the suppliers. If the problem is serious, this could leads to business failure or a bad imagery occurs to the public. However, as a big company like Supergroup they will have a big group of manager, accountants to prevent any of these issues from occurring.



ResultsPlus Examiner Comments

This candidate has a clear understanding of 'working capital' and there is further development in that poor management of working capital could lead to the business failing. Critically, this candidate has also included two elements of contextualisation within their response. This is quite subtle, but reference is made to Supergroup Plc 'rapidly expanding' and being a 'big company'. Therefore, this response is awarded 4 marks in total since it satisfied all of the skills the question is designed to test.



ResultsPlus Examiner Tip

For 'explain how' questions make sure you include two distinct elements of context/application or two applied examples. If you do not do this you will limit your response to a maximum of 2 marks.

Question 2 (e)

This question was answered well, but the comments made are similar to those in question 1(e). The stumbling blocks again tended to be lack of evaluation and lack of context which meant many answers found themselves in Level 2.

(e) Assess **two** likely effects on a company, such as SuperGroup Plc, of operating in a highly competitive retail clothing market.

(8)

The company will need to ensure that each of their products has a unique selling point as competition for the top slot will be fierce and SuperGroup Plc may not end up being able to sell their stock.



ResultsPlus
Examiner Comments

This response has made one point with simple development. There is no attempt to evaluate and the answer is generic and could apply to any business facing a highly competitive retail clothing market. The answer fits Level 1 of the mark scheme best and is awarded 2 marks.

(e) Assess **two** likely effects on a company, such as SuperGroup Plc, of operating in a highly competitive retail clothing market.

(8)

One effect of working in a competitive retail clothing market is that SuperGroup Plc may have to compete on price. This is because in a competitive environment consumers are often given too much choice for similar products. This could mean that SuperGroup Plc may have to price their products in accordance to competitors. This may mean that in order to attract customers ~~at their~~ aged 15-25 year olds to their fashion ~~retail~~ label, they might have to reduce prices. However, price might not affect a company like SuperGroup Plc if they have ~~better quality~~ ^{constant} a good brand image. This is because consumers might be willing to pay more for their clothes if they have a well known, respected brand image. This could mean that consumers are still willing to pay more for their product.

~~Another~~ A ~~other~~ effect of operating in a highly competitive retail clothing market is that ~~constant~~ ^{constant} adaptation ~~is necessary~~ and innovation needs to take place. This is because in dynamic markets, competitors are always trying to create new, fresh, innovative products to ~~make consumers~~ create consumer wants. ~~Therefore~~ This could mean that a business like Super Group Plc, market research might need to take place ~~constantly~~ ^{constantly} to find out what could be in demand. However, this might not affect SuperGroup Plc if



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Examiner Comments

This is a more able response since there is clear evidence of accurate knowledge, clear analysis through the use of chains of logical reasoning and some strong use of application. In each of these three skill areas the top of Level 3 seem appropriate. However, the evaluation, although it exists for the first effect and is detailed, it does not exist for the second effect. Therefore, the response is left in the middle of Level 3 and 7 marks are awarded.

Question 2 (f)

This question highlighted that some candidates did not know what Just In Time (JIT) was. Many candidates made the error of stating that it would lead to SuperGroup Plc having more stock available to sell. A further problem was that many candidates paraphrased large chunks of the case-study to help them answer the question. The marking of this answer used the same line of best-fit approach used in question 1(f).

(f) Assess whether a Just in Time (JIT) stock management system is likely to benefit a clothing retailer such as SuperGroup Plc.

(10)

Just In Time stock management is a way to make sure that there is enough stock incase of high demands in the markets. This would be beneficial to SuperGroup PLC because the article states that the business has a high growth in demand. Just in Time would help to cover unexpected orders the business might face in order to keep consumers satisfied.

Also it can allow stock that can keep up with dynamic changes withing the retail clothing industry. For example, if the season Spring had forecasted very hot weather - the business would be able to start production of that clothing in order to be able to adapt to the changes.

Also, incase of any other external factors the business can use the extra stock as buffer stock.

However, this way can require

a lot of storage space which is time consuming and it would need extra staff in order to maintain the stock levels.



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Examiner Comments

This candidate has confused Just In Time (JIT) with Just In Case stock control. The candidate has not answered the question. Therefore, despite the length of the response, the candidate scores 0 marks.

(f) Assess whether a Just in Time (JIT) stock management system is likely to benefit a clothing retailer such as SuperGroup Plc.

(10)

Just in Time (JIT) stock management is when you receive stock when you need it and not before.

This could benefit Super Group Plc because they won't want stock lying around that no one will buy. When fashion and tastes change they don't want to have stocked up on products that won't sell anymore because then they won't have storage for the new stock. This makes JIT more beneficial for them because they will save that storage space and they won't have unnecessary stock lying about wasting space and causing them losses. However if that stock is delayed for some reason then they won't have anything to sell if they have used up what they currently have. This can cause major problems and result in unsatisfied customers who expect the store company to have stock to sell to them.



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Examiner Comments

This response is typical of many answers seen. The candidate knows what Just In Time (JIT) is and can articulate some advantages using common sense as to its use. There is also some application and some balance. However, the response fails to develop detail and remains vague throughout. This response is placed at the bottom of Level 3 and 5 marks are awarded.

Question 3

This question is designed to take elements from theme 1 and combine it with elements from theme 2 from the specification. Therefore, this question is designed to be synoptic in nature. The main error made by candidates in this question was that they tended to be very good at evaluating the pros and cons of promotional methods and competitive prices, but tended to be very poor at linking this back to sales revenue. These responses tended to be placed towards the top of Level 2 and bottom of Level 3 depending on the quality of the written skills demonstrated within the answer. Many candidates did not pick up on the fact that choice was framed against the recovery stage of the business cycle.

With the UK economy entering the recovery phase of its business cycle, Aldi could continue to either focus on competitive prices, or increase its use of promotional methods.

3 Evaluate these **two** options and recommend which option Aldi should adopt to increase its sales revenue.

(20)

Firstly, if Aldi were to continue to focus on competitive pricing, it would surely be beneficial for them because this technique of competitive pricing as we know from Extract E, sales have increased by 22.6% during 2014, which gave them a UK market share of 3.3%. This means that they are slowly improving and the technique of very competitive prices is doing its job of attracting customers. Therefore, by changing something that works well, they could lose customers and as a result, their market share may possibly go back down. This is clearly an effective method of gaining a good sales revenue so it should be left as it is.

In comparison, if Aldi were to increase their use of promotional methods, it could be problematic. As their current advertising campaign of T.V. advertising is working well, it would be wrong to change it. ~~So instead~~ In fact, if they spent money on increasing promotional methods, this could reduce their sales revenue as a lot of money is being put forwards to improving Aldi's advertisement.

In conclusion, whilst additional advertising campaigns may attract a few more customers, it will not bring in enough customers to be able to break-even with the cost of advertising. Therefore, my recommendation to Aldi is that they continue with competitive pricing as this is very effective for them in terms of increasing sales revenue, this option would be more beneficial than increasing promotional methods.



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Examiner Comments

The candidate considers both promotional methods and competitive pricing. However, the answer makes too much use of common sense, which makes the answer too simplistic in nature. There are some errors made such as when the candidate states that spending money on promotion will reduce sales revenue (bottom of page 1). There is some attempt at evaluation, but it is again simplistic in nature. The candidate makes a simple judgement without any development of why the choice made would cause sales revenue to increase. This response is placed in Level 2 and 7 marks are awarded.

With the UK economy entering the recovery phase of its business cycle Aldi could continue to either focus on competitive prices, or increase its use of promotional methods. ^{inferior}

3 Evaluate these **two** options and recommend which option Aldi should adopt to increase its sales revenue.

(20)

Sales revenue is price multiplied by quantity sold. Focussing on competitive prices could lead to increased sales as customers may feel leads to increased demand as the prices are lower than those of Tesco. This would mean that sales revenue increases as quantity being sold increases due to the greater demand. ~~This~~ could mean that also, the fact that the economy has just been in a recession means that customers are less likely to be confident with their money and are more likely to shop at places with the cheapest prices.

Focussing on promotional methods could also be highly beneficial for Aldi given that it is operating in a highly competitive market such as that of the food market. Promotional methods may allow for an increase in demand as it informs customers of deals which would possibly make them feel as if they are getting more for their money in deals such as buy one get one free. Also, as Aldi is viewed as an inferior brand, stocking 'a limited range

of own-brand groceries' which are likely to be inferior goods meaning as income increases demand decreases, this means that as consumer confidence grows in the business cycle, demand is likely to decrease. However, promotional methods may allow Aldi to compete more successfully with big supermarkets when the economy enters a boom. Therefore more successful at increasing sales revenue in the long term as customers may gain brand loyalty through Aldi's promotion methods.

Overall, I think promotional methods will be more successful in the long-term as it will allow Aldi to ~~get~~ develop a strong brand allowing it to compete with monopolies such as Tesco when the economy improves. However, it depends on the finances available to Aldi in order for it to launch a successful promotional campaign. Also, competitive prices would be successful in the short term as they represent Aldi's brand of providing low priced goods. However, to continue its growth Aldi will need to focus on other things such as quality to maintain demand as the economy improves therefore promotion will be more beneficial.

(Total for Question 3 = 20 marks)



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Examiner Comments

This candidate analyses both promotional methods and competitive pricing. There is an understanding that this is happening against the backdrop of the recovery phase of the business cycle and the candidate builds in plenty of application by recognising that Aldi sells inferior goods and faces much larger competition such as Tesco. There is a focus on sales revenue (although this could be made more apparent at the end of the response) and the evaluation is strong since the choice is dependent over the time period under consideration. On balance, this answer is placed on the threshold of Level 3 and 4 and 15 marks are awarded.



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Examiner Tip

Make sure that you make a choice and recognise that two themes are being assessed in this question. In this case, there was a tendency to drift off 'increasing sales revenue'.

Paper Summary

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

- know the correct formulae for the question
- always show your working and the formula used, even if you make an error you could score some marks
- learn the key terms in the specification
- for 'explain how' questions make sure you include two distinct elements of context/application or two applied examples
- for question 3 remember that two themes are being assessed.

Grade Boundaries

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

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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