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Examiners' Report

June 2017

GCE Business 9BS0 02

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Introduction

Overall the paper proved to be accessible, with the vast majority of candidates able to attempt every question. Candidates generally could relate to the stimulus material and were able to add relevant additional examples to illustrate their answers, enabling them to be awarded credit for the skill of application.

Timing did not appear to be an issue as in most cases every question was answered fully. However, some candidates disadvantaged themselves by writing lengthy answers to certain questions, resulting in insufficient time for question 2(e).

There were certain topics that some candidates lacked understanding in, specifically these were the acid test ratio, critical path analysis and capacity utilisation.

As always, stronger candidates revealed good subject knowledge and were well prepared in understanding how to structure their answers to the different questions. Specifically they were able to identify selective relevant arguments and develop them fully using the context to illustrate their answers. When required, stronger answers revealed the ability to look at both sides of the argument and provide a fully supported conclusion or recommendation.

Less able candidates tended to reveal gaps in subject knowledge and often struggled with calculation questions. They would typically be able to identify relevant arguments, but fail to explain them in sufficient detail. Analysis would be mainly based upon assertion or with gaps in the chain of argument. Often answers would be generic with no reference to the context of the question. Conclusions or recommendations were often not provided or would simply be a summary of previous arguments.

Overall the impression of candidates' responses to this exam are positive. Generally candidates were well prepared, showed good subject knowledge and understood how to structure their answers to the specific demands of each question.

Question 1 (a)

The majority of candidates were able to provide good understanding of mission statements and explain a benefit Morrisons could gain from having one. However, a common weakness was that candidates failed to refer to the context in order to gain application marks. 2 marks were allocated for application for this question; most candidates failed to provide two examples from the extract and consequently did not gain full marks.

1 (a) Explain how Morrisons may benefit from having a mission statement.

(4)

A mission statement is a statement that shows what ~~the~~ ^{the} business is, and what they believe in.
Morrisons can benefit from a mission statement ~~by~~ as it allows them to continuously work towards a constant goal set out in the statement. This ~~keeps~~ can help to keep staff focussed, and morale high, to deliver a better service than competitors.



ResultsPlus

Examiner Comments

This response was awarded 2 marks. It showed good understanding of a mission statement and explained a benefit of having one. Unfortunately it failed to make any reference to the context, so marks for application could not be awarded.



ResultsPlus

Examiner Tip

Typically 4 mark 'explain' questions contain 2 application marks which can be gained by using 2 relevant examples from the context.

1 (a) Explain how Morrisons may benefit from having a mission statement.

(4)

A mission statement is used as a PR activity to inform stakeholders of the values of the company. Morrisons may benefit as their staff will feel part of one team and motivated as part of this group with a 'vision' to focus on. This will lead to a happier workforce who provide a better customer service.



ResultsPlus
Examiner Comments

This response gained full marks. The knowledge mark was awarded for the understanding that a mission statement often includes the values of an organisation. Application marks were awarded for the use of relevant examples from the extract namely 'part of one team' and a 'vision' to focus. The analysis mark was awarded for the explanation of the benefit in the last sentence.

Question 1 (b)

Most candidates revealed good understanding of the acid test ratio, by correctly calculating both years and stating the difference. Some candidates lost a mark by not stating the difference. A significant number of candidates revealed limited understanding of the acid test ratio or confused it with the current ratio.

(b) Using the data in Extract B, calculate the difference in Morrisons' acid test ratio between 2014 and 2015. You are advised to show your working.

(4)

$$\frac{1138}{2273} = 0.5006599 = 0.501 \quad 2015$$

$$\frac{1429}{2873} = 0.4973894 = 0.497 \quad 2014$$

$$0.501 - 0.497 = 0.004 \quad \therefore$$



ResultsPlus Examiner Comments

This response was awarded zero marks. This was because it failed to deduct the inventory from total current assets for each year.



ResultsPlus Examiner Tip

Although not always required, it is a good idea to write the formula first before completing calculation questions.

that doesn't do harm and have values.
(b) Using the data in Extract B, calculate the difference in Morrisons' acid test ratio between 2014 and 2015. You are advised to show your working.

(4)

$$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

$$2015 = \frac{1138 - 658}{2273} = 0.21$$

$$2014 = \frac{1429 - 852}{2873} = 0.20$$

$$0.21 - 0.20 = \text{0.01:1}$$



ResultsPlus

Examiner Comments

This response was awarded full marks. It stated the correct formula, which was used to calculate the acid test for both years and the difference between them was also worked out.



ResultsPlus

Examiner Tip

Always show all calculations, rather than simply stating the answer.

(b) Using the data in Extract B, calculate the difference in Morrisons' acid test ratio between 2014 and 2015. You are advised to show your working.

(4)

$$\text{acid test} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

$$2014 = \frac{1429 - 852}{2873} = 0.20 : 1$$

$$2015 = \frac{1138 - 658}{2273} = 0.21 : 1$$

$$\frac{0.21 - 0.2}{0.2} \times 100 = 5\% \quad \text{Increased by } 0.1 \text{ from } 2014 \text{ to } 2015$$

or a 5% increase from 2014 to 2015



ResultsPlus

Examiner Comments

This response gained 3 marks. The formula was stated correctly and the acid test ratio for both years is correct. Unfortunately there has been a calculation error for the difference between the 2 years.

Question 1 (c)

This proved to be a challenging question for many candidates. Stronger responses provided a correct definition of a competitive market, followed by explanation of both a positive and negative effect for Morrisons, with consistent use of context. These responses then provided a fully supported conclusion. However many candidates misinterpreted the question by discussing what strategies Morrisons would need to adopt in a competitive market. Although these responses contained some merit, they tended to only gain lower level marks because they had not directly answered the question.

(c) Assess the likely effects on a business, such as Morrisons, of a more competitive environment.

(10)

A competitive environment refers to a dynamic market where there are many firms that respond quickly to change.

A more competitive environment may see Morrisons increase their share and market growth within the mass market. Consumer spending habits are changing and consumers are spending less, hence the rereach Aldi and Lidl are seeing 17.6% and 17.8% share increases in 2015. As Morrisons lack the market power of leaders Tesco and Asda, it is more appropriate that they charge lower prices to pierce the market. This will lead to increased sales, which will increase market growth and lead to the greater share of the market. This depends on the ability of Morrisons to increase customer inflow as increase in customers instores leads to greater volume of sales.

Morrisons may suffer from increased expenditure due to the competitive environment. To bring in customers, Morrisons will have to invest heavily in advertising and promotion as the three market leaders own 60.8% market share collectively meaning that the customer base is small. This will lead to increased expenditure which affects how flexible Morrisons can be when responding to change. This depends on how innovative the firm is trying to be.

and whether this is a key objective at the present time.

In conclusion I believe that Morrisons will see increase in share. Customers shop for convenience therefore brand loyalty is low, so customers will be attracted to Morrisons lower prices than the market leaders. Planning should be accounted for with the increase in advertising and promotion but strategically positioning stores to increase customer bases should overcome this. This depends on the variety of products that Morrisons can offer to the public.



ResultsPlus Examiner Comments

This response was considered to be a Level 2 response and was awarded 4 marks. It identifies 2 effects on Morrisons – the need to lower prices and increased spending on promotion, with some reference to the context, but the analysis of each point is mainly based upon assertion. It also only considers the potential negative effects and consequently lacks balance.

(c) Assess the likely effects on a business, such as Morrisons, of a more competitive environment.

(10)

A more competitive environment is one where the degree of competitive rivalry between firms has increased, possibly due to new entrants in the market.

One likely effect on Morrisons is a decrease in profit margins. This is likely to occur due to the growth of smaller or cheaper rivals such as Aldi, who experienced growth of 17.6% in 2015. This means that they are more able to experience economies of scale and pass these cost savings onto consumers in the form of lower prices, therefore stealing customers from Morrisons as Morrisons is more expensive. This decrease in revenue results in a decrease in profits at Morrisons as costs are unlikely to fall in the same time period.

However, profit margins may not decrease. This is because Monomers tend to offer better quality products compared to discount retailers and so they are not as vulnerable to cheaper competition as expected. Therefore profit margins can be maintained as many customers don't switch brands.

Another effect on monomers of a more competitive environment is an ~~decrease in~~ ^{increase in the need for investment} market share. This may occur due to the increasing levels of competition making innovation and differentiation more necessary. They will probably invest in new branding to help add value to their products, or technology to reduce costs e.g. fuel efficient deliveries. This will also reduce their profit margins.

However, in the long term they will increase as the investment allows monomers to develop a competitive advantage, due to the

fact the investment could have made better quality products/sales. Therefore profit may increase due to higher sales revenue and the attraction of customers.

In conclusion, the effects of more competition will be mainly negative in the short term, e.g. more investment and lower prices reducing profit, but this will allow for higher revenues and sales in the long term.



ResultsPlus Examiner Comments

This was considered to be a Level 4 response and was awarded 8 marks. It provides a correct definition of a competitive market, followed by separate paragraphs that discuss relevant effects. Each effect is well explained with use of context. It reveals good exam technique by discussing both the positive and negative implications of each effect as well as an overall conclusion. Although a solid Level 4 response, it could have been improved by greater use of context and a stronger conclusion.

Question 1 (d)

This question discriminated well in terms of exam technique. Stronger candidates identified selective arguments supporting the view that David Potts was the main cause of Morrisons' improved performance. These arguments were well explained with strong chains of argument, fully supported by examples from the context. Selective counter arguments were then provided, which were fully explained and supported. A fully justified conclusion which directly answered the question was also provided.

Some candidates provided answers that discussed the advantages and disadvantages of David Potts' strategies e.g. closing stores and/or replacing directors. These answers contained merit, but were not awarded Level 4, because they were not 'wide ranging' as external factors had not been considered.

Less able responses tended to offer too many arguments, which were often simply 'lifted' from the extracts. These arguments were often poorly explained or based upon assertion. Conclusions were often not provided or simply summarised previous arguments.

(d) Assess whether the transformational leadership shown by David Potts is the main cause of Morrisons' improved performance.

(12)

Leadership is the way in which a business is commanded to ensure they can be successful as a business. This may include a more hands on autocratic approach or oppositely a laissez faire approach.

One reason for David Potts' transformational leadership being the main cause of improved performance is that Morrisons had been stuck in the same old fashioned business ~~style~~^{style} for years. For example by not changing with the times, market share was inevitably lost by competitors such as Lidl, who are far more open to change, taking advantage of leadership and business style evolution. For this to change Morrisons required an immediate change to their leadership style, which meant throwing out older methods which would drain less money where customers were not buying. This could only have happened with a vast amount of research, something which should be done each year in a competitive market.

However there could have been other factors causing the performance improvement. For example it could have simply been changing customer trends, with it being reported that factors like product range and quality have a considerable effect on shopping choices. This would naturally mean a steady return of customers to Morrisons from Aldi and Lidl, where after the recession and with boosting customer confidence people felt less need to shop cheap. The only way this could have happened is thanks to Morrisons continued maintenance of high quality customer service and products.

Overall Morrisons was likely in dire need of a management/ leadership change in order to push them into the next decade along with Aldi etc, as the need for innovation was not being met under old leadership, however it could still be said that keeping to tradition allowed Morrisons to maintain and draw back a customer base where customer attitudes would later change after recession and increasing spending confidence.



ResultsPlus
Examiner Comments

This response was considered to meet the requirements of Level 4 and was awarded 9 marks. Although it does not include a clear understanding of transformational leadership, this response includes 2 valid arguments, both of which are well explained with relevant use of the context. Assessment is balanced and the conclusion is supported by prior analysis.



Assess questions will always require candidates to look at both sides of an argument and write a supported conclusion.

(d) Assess whether the transformational leadership shown by David Potts is the main cause of Morrisons' improved performance.

(12)

The leadership style of David Potts seemed to be an autocratic one so he made the decisions as to what he thought was right and best for the business.

One way in which he had shown transformational leadership was by replacing several managers and selling off 140 of its stores. This was a good plan for Morrisons as consumer incomes were falling therefore didn't have the incomes to spend as much as they did, this resulted in the decline of the amount of money spent in the convenience stores, lowering their revenue. So by selling off the stores, it allowed there to be an increase in revenue for Morrisons. Also, David Potts's idea of replacing several directors meant that they could bring in new ideas to help increase the overall market share of Morrisons. Also the current liabilities has fallen by £600m meaning there is less debts for the business.

However, this hasn't proven to be as successful as in 2015, Morrisons saw a fall of 1% market

share, this could be due to other external factors such as customer incomes falling again so less expenditure in stores, or that competitors are simply just beating Morrisons on price which is why more consumers are attracted to them causing this 1% fall in market share.

To conclude, the Transformational leadership shown by David Potts ~~resulting~~ has led to Morrisons improved performance as even though there's been a fall in market share, the ~~the~~ Total current liabilities has fallen dramatically meaning that Morrisons ^{owes} ~~owns~~ less to debitors, which has ~~therefore~~ increased the performance of Morrisons.



ResultsPlus Examiner Comments

This response was considered to be Level 2 and awarded 4 marks. It contains valid points supporting David Potts leadership e.g. closing stores and replacing directors, but these are poorly explained or based upon assertion. The counter argument is incorrect and shows misunderstanding of the context. The conclusion was considered to be superficial and not supported by the previous arguments.

Question 1 (e)

This proved to be a very accessible question. Most candidates were able to provide well explained arguments for both options and made a recommendation. Stronger candidates provided well developed lines of argument with consistent use of context. Evaluation marks were also awarded for candidates who recognised the limitations or disadvantages of each option. The key discriminator for this question was the focus upon which option would be preferred by shareholders. Many candidates did not focus upon this and consequently could not be awarded Level 4 marks.

Weaker answers tended to be descriptive, identified too many points and failed to analyse them in sufficient detail. They often failed to make a specific recommendation.

In preparing future candidates for 20 mark questions, the key lessons centres need to learn are:

- Focus upon the exact wording of the question.
- Quality rather than quantity – selective arguments that are well developed will always be rewarded higher than identifying several arguments with limited explanation.
- Each argument must relate to the context of the business/industry featured, it is important to avoid generic responses.
- Write concisely and avoid extended answers which often contain too much waffle.
- Make a justified recommendation that is based upon prior arguments.

Morrisons aims to regain its market share. The two options the management are considering are either to cut prices further, or to improve its overall customer experience.

(e) Evaluate these **two** options and recommend which option might be preferred by Morrisons' shareholders.

(20)

Cutting ~~costs~~ prices could mean Morrisons will focus on being a cost leadership business according to Porter's diagram. One benefit of Morrisons' cutting prices could mean they will acquire more customers. This is because a lot of consumers moved to discount supermarkets such as Aldi and Lidl as a result of consumer incomes falling. By responding to this with 'I'm cheaper' campaign this could result in winning those consumers back and maybe even more conser

Mers who didn't originally stop at Morrison's Consumer research also shows cheap prices have an influence on supermarket choice there are by lowering their prices it might result in them gaining more ~~cost~~ customers which means they will generate more profit and as a result gain more market share which would be beneficial as Morrisons fell by 1% in 2015

However cutting prices could lead to less profits. Another benefit of cutting prices could be that even if ~~consumers~~ interest rates are falling and energy prices it could still lead to more customers at Morrisons, even if it's just for the cheaper Morrison's own brands. However, cutting prices could be wasted due to these falling interest rates and energy prices meaning people are able to spend more where they want.

On the other hand Morrison's could benefit from improving its overall customer experience as research shows that price doesn't ~~just~~ just influence consumers choice of supermarket, but overall customer experience too. As a result of this, it could mean that customers are more satisfied by shopping at Morrison's so as a result they will become loyal leading to repeat purchasing meaning they will generate more profit.

This could also lead to good publicity and ~~repe~~ reputation as satisfied customers may spread the word about Morrison's customer experience through ~~the~~ word of mouth leading to more ~~costs~~ ^{customers} which could result in their market share increasing. However, it could be expensive to improve customer experience due to costs of increasing quality of products for example.

Improving customer experience could also be beneficial as there have been changes in society, such as ageing population and more single ^{person} households, therefore they could improve their customer experience because they generally make more frequent trips, so if they ~~do not~~ ~~are~~ are not satisfied by their experience then they are not going to continue shopping at Morrison's. Also due to ~~the~~ interest rates becoming lower and energy prices getting lower there has been an increase in consumer confidence therefore ~~improving~~ improving customer experience would seem more relevant. However, due to ~~the~~ ~~consequence~~ ^{person} to a lot of shoppers being single household shoppers, they are probably not likely to want to spend lots and there are might go to a discount (Total for Question 1 = 50 marks)

supermarket for small convenience **TOTAL FOR SECTION A = 50 MARKS**

Alert shops.

To conclude, improving overall customer experience could increase customer loyalty due to customer satisfaction and seems like the smarter option due to an increase in consumer confidence.



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Examiner Comments

This response was awarded Level 2, 8 marks. Valid arguments for both options were identified and explained, but often there were missing links in the chain of argument and/or analysis was often based upon assertion. The response also contained evaluative comments regarding the strengths and weaknesses of each option, but the overall conclusion was superficial. Unfortunately, the response never linked each option to shareholders' interests.

Morrisons aims to regain its market share. The two options the management are considering are either to cut prices further, or to improve its overall customer experience.

(e) Evaluate these **two** options and recommend which option might be preferred by Morrisons' shareholders.

(20)

Cutting prices further might be preferred by Morrisons shareholders. This is because they will have seen how low cost supermarkets such as Aldi have been able to increase their market share in a short period of time. Morrisons shareholders may think that they can replicate this method. This will increase market share in the current economic climate as people consumers are still looking for low cost shop prices therefore if Morrisons decide to operate as low cost they could therefore have increases in their market share once again. Although shareholders might be against this method within the short

firm. This is because by reducing prices further. Initially they might be making less revenue. This therefore means that it is likely that Shareholders could experience less dividends if less profit is made or even no dividends if a loss is made by Morrisons. Therefore this might not be in the interest of Shareholders.

Upon Alternatively improving its overall Customer experience might be preferred to Morrisons Shareholders. This is because before the recession when Morrisons was experiencing increases in market share Customer Service is what they focused on. And if Morrisons have some of the same Shareholders as they did previously this means that they might prefer improving Customer Service as a whole. This is because Shareholders will think that if they can improve market share through this strategy once for they should be able to do it again. Therefore Shareholders will like this method. Although they may be against this method. This is because Shareholders might have to one again face a cut in dividends through cost increases experienced by Morrisons in an attempt to improve Consumer retail experience that might not even be able to help improve market share.

Overall Shareholders will prefer cutting prices further. This is because of the current buying habits of consumers as Shareholders will know that consumers are keen on

as Shareholders will know that Consumers are keen on low cost products. And this option is already successful as shown by Audi and Lidl that have been able to significantly increase their market share in a short space of time as well as becoming quite profitable. Therefore managers and shareholders might prefer to take this option as the other offer is also outdated and not currently suitable with the current buying habits of consumers.



ResultsPlus Examiner Comments

This response was considered to be Level 4, 18 marks. Its strength is based upon the fact that the analysis of each option is directly linked to shareholders' interests. Each option is discussed with consistent reference to the context and although at times the analysis could have been stronger, arguments were generally well developed. There was evidence of evaluation throughout the response and the conclusion made a direct recommendation regarding which option would be preferred by shareholders, which was supported by the previous arguments.



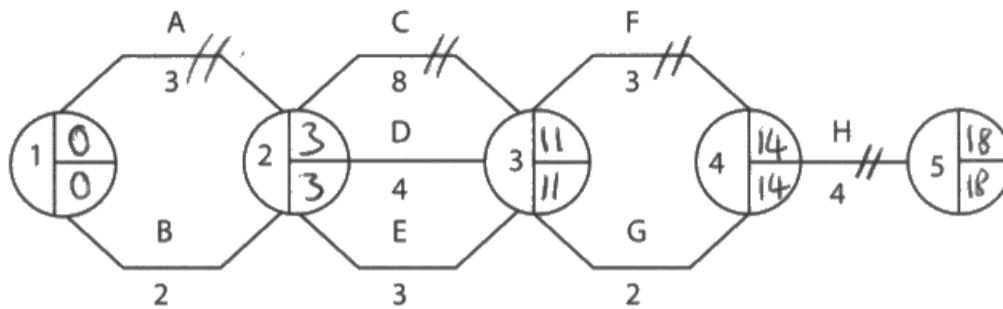
ResultsPlus Examiner Tip

It is not necessary to write lengthy answers to 20 mark questions. The space provided in the answer booklet should be sufficient. Selective points that are well explained with consistent use of context are a key element of a good response.

Question 2 (a)

Candidates who understood critical path analysis usually gained full marks. However there were many examples of candidates who showed either limited or no understanding of this topic.

- 2 Innocent Drinks has constructed the network diagram below to plan the launch of a new line of smoothies. Each number represents how many days each activity is estimated to take.



- (a) Using the data in the network diagram above, calculate the Earliest Start Times (EST) and Latest Finishing Times (LFT) for each activity and identify the critical path.

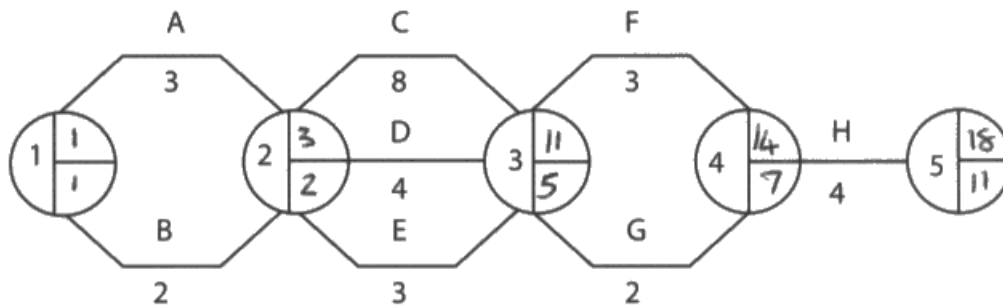
(4)



ResultsPlus Examiner Comments

Correct calculation of the EST's and LFT's for each node plus correct identification of the critical path diagrammatically. Consequently there was no need to state the activities that were on the critical path. Full marks were awarded.

- 2 Innocent Drinks has constructed the network diagram below to plan the launch of a new line of smoothies. Each number represents how many days each activity is estimated to take.



- (a) Using the data in the network diagram above, calculate the Earliest Start Times (EST) and Latest Finishing Times (LFT) for each activity and identify the critical path.

(4)

The critical path is B, E, G, H and can be done within 11 days.
 The longest will take 18 days with all ~~EST~~ LFT together.



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 Examiner Comments

This response gained 1 mark due to the fact that apart from node 1; the EST's had been correctly calculated. However all the other calculations were incorrect.

Question 2 (b)

The majority of candidates revealed good understanding of capacity utilisation and performed the calculations correctly. However understanding of the implications of manufacturer A's lower capacity utilisation was mixed, with only a minority of candidates identifying the consequence of higher unit costs.

A significant number of candidates revealed limited or no understanding of this topic.

- (b) Using the data in Extract F, explain **one** implication of the level of capacity utilisation for the soft drinks manufacturer A, compared to B. You are advised to show your working.

(4)

$$\text{Manufacturer A} = 250000 / 500000 \times 100 = 50\%$$
$$\text{Manufacturer B} = 400000 / 500000 \times 100 = 80\%$$

One implication is that the staff may get bored and demotivated by the lack of work as they could be producing more. Capacity utilisation measures how effectively a firm is using its capacity.



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Examiner Comments

Although the formula for capacity utilisation has not been stated, correct calculations for both manufacturers indicates implicit understanding. The analysis mark is awarded for the identification and explanation of a correct implication. Full marks awarded.

(b) Using the data in Extract F, explain one implication of the level of capacity utilisation for the soft drinks manufacturer A, compared to B. You are advised to show your working.

(4)

$$\frac{\text{Actual output}}{\text{Maximum output}} \times 100$$

One implication of A compared to B is that their capacity utilisation is lower meaning more fixed costs as building aren't operating fully.

$$\begin{array}{r} \text{A} \\ \hline 250,000 \\ \hline 500,000 \end{array} \times 100 = 50\%$$

$$\begin{array}{r} \text{B} \\ \hline 400,000 \\ \hline 500,000 \end{array} \times 100 = 80\%$$



ResultsPlus
Examiner Comments

3 marks awarded for the correct calculation of capacity utilisation for both manufacturers. However the implication was not explained correctly.

Question 2 (c)

This proved to be a very accessible question. Candidates were knowledgeable about Innocent/Coca-Cola and often included additional relevant examples in their answers. Most candidates scored well on this question, the main discriminator was how well each argument was explained and the quality of the conclusion.

(c) Assess whether Innocent Drinks Ltd should have raised finance by selling a minority of its shares to a business, such as Coca-Cola.

(10)

Innocent Drinks LTD should have raised finance by selling its shares to a business such as Coca-Cola. This is because Coca-Cola have been around for a long period of time they know and understand many markets and have gained valuable experience. This means that Innocent can benefit from this experience which will help with decision making in key areas such as Branding and Marketing therefore helping Innocent get their product known by more potential customers. Furthermore because Coca-Cola is so big there will be potential to gain further finance if needed from them in order to continue to develop Innocent. Although because Coca-Cola have such a vast amount of business ventures and ownerships in many different products, Innocent may not get the help that it might desire and only gain funding from Coca-Cola.

Although Innocent shouldn't have raised finance by selling shares to Coca-Cola. This is because Coca-Cola are well known to be an unhealthy brand. Innocent ~~is~~ could have harmed their reputation and decreased their customer base. This is because consumers could have thought it was bad for Coca-Cola is unhealthy as products might be unhealthy therefore meaning that consumers avoid using the Innocent ~~products~~ potentially

decreasing revenue.

Although overall Innocent should have raised finance through Coca-Cola. This is because they do have countless successful drinks ventures and lots of financial and technological backing that it would be hard to reject selling minority of shares to Coca-Cola therefore the right decision was made.



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Examiner Comments

This response was awarded Level 4, 9 marks. The arguments both for and against Innocent Drinks raising finance through selling shares to Coca-Cola were well explained with consistent use of the context. The response was balanced and ended with a supported judgement.

(c) Assess whether Innocent Drinks Ltd should have raised finance by selling a minority of its shares to a business, such as Coca-Cola.

(10)

Selling shares to a business means you can lose control. This is ~~a~~ ^{an} disadvantage as ~~that~~ Coca-Cola may try to take full responsibility of the business - due to it only being 18%. They can still try to gain control. ~~Therefore~~ The implications is that they may try to buy more shares, ~~not~~ which resulted in a takeover. Innocent Drinks Ltd ended up losing 90% of their business when other alternatives such as ~~venture capital~~ bank loans may have been more beneficial if power and control wanted to remain with Innocent Drinks Ltd.

One advantage of selling to Coca-Cola is that they are already an established brand. Therefore Coca-Cola could, with guidance, increase brand awareness of Innocent Smoothies globally which could increase demand and therefore revenue. However, with being linked to Coca-Cola means their negative reputation may also affect the sales of Innocent Smoothies, eg. Scams in the media, with customers will assume the same about Innocent Smoothies.

To conclude, the advantage of going into business with Coca-Cola is that there is an abundance of finance available due to it being so large and successful. However, selling shares decreases that of power and control you have, over that and the business is more susceptible to takeovers.



ResultsPlus

Examiner Comments

This response was considered to be Level 3, 6 marks. It includes relevant arguments both for and against, which are supported by the use of context. Each argument is reasonably well explained. Evaluation is evident in the second paragraph and in the conclusion. However the conclusion simply summarises previous points rather than making a judgement.

Question 2 (d)

This question discriminated well. Stronger candidates were able to identify selective positive and negative effects for AG Barr from the takeover, with impressive use of appropriate theories such as the Boston Matrix, Ansoff and economies/diseconomies of scale. Application generally tended to be weaker, with limited reference to the actual context of the drinks industry.

(d) Assess the likely effects for AG Barr of taking over Funkin, the cocktail mixer business.

(12)

expand. risk of downturn - v. big. - brand image - well known - great sales it built
- no experience - successful - expense.

A takeover is when a firm purchases another firm and takes control of its operations.

One positive effect on AG Barr of taking over Funkin is that they have reduced the risks of the business. This is because the takeover allowed them to diversify into a different industry; one which is growing in popularity, especially among young people as cider and other alcoholic beverages become less popular. Therefore, in the event that the soft drinks market AG Barr operates in experiences a decline, revenues will be protected to a certain extent due to the other areas of the business that remain profitable. Therefore, the entire company can remain profitable and not experience business failure from solvency issues (if it can't repay debts). However, the industry they are moving into, has different customer needs to the soft drinks market, therefore the lack of experience by AG Barr could make the takeover ~~un~~unsuccessful if they are incapable of meeting the needs of customers in the cocktail/mixer market, and consequently the cost of the takeover will have been a waste and could have been better spent elsewhere.

Another likely effect on AG Barr of taking over Funkin is the increase

in popularity of its brand. If they choose to rebrand Finken under their own name, customers will be more aware of their brand; this could potentially help raise the sales of their existing products. Moreover, maintaining Finken as sales revenue increases, and there is less need for the marketing of two separate brands, now they share the same brand. However, all of this comes at a high cost of up to £26m, a very expensive gamble for a venture into an industry they have little experience in. This lack of experience could also mean they are paying more for Finken than it is actually worth, which could reduce the value of the company once it is acquired and its true value identified. In conclusion, the majority of the effects previously mentioned are positive for AG Barr, and even if they overpay for the company and end up not performing post takeover, the money they save by using its own distribution network could help reduce the opportunity cost of the investment as Finken's distribution network may contain assets that can be sold on for profit.



ResultsPlus
Examiner Comments

This response was awarded Level 4, 11 marks. It identifies 2 relevant effects for AG Barr as a result of the takeover. Each effect is well analysed with consistent reference to the context. Both positive and negative consequences are identified and explained, providing evidence of balanced assessment. The conclusion is largely based upon the previous arguments and it makes a supported judgement.

(d) Assess the likely effects for AG Barr of taking over Funkin, the cocktail mixer business.

(12)
A takeover is when a company buys out another company taking full control.

One effect is ~~that due to~~ economies of scale such as risk bearing. As they've acquired a firm in ~~an~~ a different market if one market has problems then the other one is still there as a safety net. This helps protect the firm in the long run and could potentially keep the firm alive if for say their soft drinks products saw a dramatic fall in sales. However they may not have good knowledge on this new market.

~~The~~ Another effect may be culture clashes as staff will be used to doing things their own way so if AG Barr come in and change how things are done then this could ~~be~~ anger workers from Funkin, this would cause a decrease in productivity, ~~and hence~~ an increase in ~~costs~~ ~~therefore~~ ~~decreasing~~ and hence increase costs and increase labour turnover and absenteeism which would further increase costs, hence decreasing profits. However they have a good record with takeovers so should be able to handle it well.

Overall I would suggest the takeover would be largely beneficial as they benefit from economies

of scale however it depends on how smooth
the transition is.



ResultsPlus

Examiner Comments

This response was awarded Level 3, 6 marks. It reveals good understanding of takeovers by identifying and explaining 2 relevant effects. However the analysis generally could have been stronger and a significant weakness was the lack of context. A counter argument for each effect is identified but not explained and the conclusion is superficial.

Question 2 (e)

Many candidates failed to answer this question fully, possibly because they had run out of time.

Generally candidates understood the difference between a stakeholder and a shareholder and were able to explain their different expectations. Stronger candidates were able to identify and explain a range of stakeholders and relate them to the context of Unilever's Sustainable Living Plan. Likewise they also could identify and explain the importance of shareholder interests. Recommendations were based upon prior analysis and showed awareness of Unilever's strategy.

Many candidates simply discussed the advantages and disadvantages of Unilever adopting an ethical policy with reference only to consumers. Although this approach was rewarded, it failed to reach Level 4, because the response was not 'wide ranging'.

Less able candidates tended to write limited answers that did little more than recognise the difference between stakeholders and shareholders. Often there was confused understanding or assertive comments regarding shareholders' interests e.g. the notion that shareholders provide advice to senior managers and/or 'they are only interested in profit'.

- (e) Unilever's Chief Executive believes that Unilever should aim to consider all of its stakeholders in its main business decisions. Some business analysts consider that Unilever should instead consider an aim of focusing purely on its shareholders.

Evaluate these **two** aims and recommend which is most suitable for a business, such as Unilever.

(20)

A stakeholder approach is where the business focuses on those who have an interest in the business, such as customers, employees and the environment. Unilever are trying to "reduce their environmental footprint" and therefore this will create a better reputation for them. As a result, people will be more willing to work for them if they agree with their ethical values and so they could attract highly motivated and productive staff. Therefore, they will all work towards this environmental goal, causing Unilever to be associated with more environmentally friendly work. Customers will then be more willing to ~~shop at~~ buy from the conglomerate and ~~be happier~~

~~to~~ therefore increasing sales.

However, acting ethically may raise costs if they have to recycle more or research more ethical production methods. As a result, they may have to decide between raising prices or taking a cut in profits. In order to 'double the size' of Unilever, they would require profits to invest, therefore they ~~may~~ may only achieve one objective in this method.

A shareholder approach is where business activity is aimed at ensuring high profits are made to satisfy shareholders. This method would benefit Unilever because potential investors may be put off a sustainability focus ~~and~~ as they're aware it will increase their costs. As a result, they may receive less share capital which they require to expand and double their size. Therefore Unilever may not gain access to growth opportunities if they also focus on their environmental footprint. However, Unilever ~~is~~ "attracts investors who prefer to invest ethically". This is due to their positive social reputation they have developed and so ~~people are~~ consumers and investors are willing to input more of their money as they know it is towards a good cause.

Overall, the stakeholder approach would be more beneficial as they are at the advantage of ~~use~~ operating on a huge, global scale so they can promote their ethical business decisions. As a result, they will attract investors still and also get away with charging slightly higher prices. Therefore ~~they're~~ they're likely to still have the funds to double in size but this may be ~~step~~ more in the long term.

But ~~the~~ consumers' changing opinions on the ethical treatment of the environment need to be catered for to keep a good reputation.



ResultsPlus Examiner Comments

This response was considered to be Level 4, 17 marks. It reveals good understanding of both stakeholder and shareholder interests. The advantages and disadvantages of each approach are well explained with consistent reference to the context of Unilever. The answer is balanced and wide ranging, due to the fact that the interests of more than one stakeholder group is considered. The conclusion is based upon the previous arguments and makes a recommendation that considers both the short and long term implications. The response is concise and consistently focused.

Stakeholder
- recruiting, want to stay?
- help reputation, USL

Depends on covering costs
USL expensive

Shareholder
- need investors
- long-term unattractive

Depends on reputation

- (e) Unilever's Chief Executive believes that Unilever should aim to consider all of its stakeholders in its main business decisions. Some business analysts consider that Unilever should instead consider an aim of focusing purely on its shareholders.

Evaluate these **two** aims and recommend which is most suitable for a business, such as Unilever.

(20)

A stakeholder refers to the group of people that have an interest in a business. A stakeholder approach may be suitable because Unilever are already market leaders. To stay market leader Unilever will need a competitive advantage which can be achieved through the use of being ethical which Unilever's USL plan would do as it aims ~~to~~ to reduce environmental footprint. This would lead to a greater reputation, which would ensure that the firm avoid stakeholder backlash. This could lead to greater brand loyalty as consumers like ethical firms and would enable the firm to ensure they have time to meet stakeholder objectives.

A ^{shareholder} ~~stakeholder~~ approach refers to returning a ~~stakeholder~~ lump sum to the investors of the business. This approach may be more suitable because the firm needs investors to keep being a dynamic as Unilever are and to keep bringing in new ideas and expertise for development. It has been said that long term sustainability is unattractive to investors, therefore too much time and resources spent on sustainability could cost Unilever potential investors. This could lead to Unilever struggling to grow which would have a knock-on effect with the level of market share they retain long term. This depends on the negative reputation that Unilever could receive from avoiding responsibility as stakeholder backlash would decrease the firm's volume of sales.

In conclusion I believe Unilever should focus on a stakeholder approach. As the firm are monopolising the market, investors should be attracted regardless, therefore spending time of the USL plan will likely improve Unilever's market position. By taking

this approach. Unilever staff risk neglecting shareholders but the sales volume should give the investors a return on their investment regardless. In addition, this issue could be fixed by making an effort to keep investors ~~in the~~ involved in the business to show them that they don't have to worry. This depends on the increase in costs from the USL plan.



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Examiner Comments

This response was awarded Level 2, 7 marks. It includes understanding of both stakeholders and shareholders, as well as relevant points from the extract. Some of the points are explained, but generally there are gaps in the chain of analysis and/or it is based upon assertion. The answer lacks breadth, due to the fact that the only stakeholder identified was consumers. The conclusion does provide a recommendation, but this is not well supported by the previous arguments. Overall this was considered to be a superficial response.

Paper summary

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

- A key lesson for centres is the importance of emphasising to candidates that selective arguments that are well explained, with appropriate use of theory and supported by consistent use of context will always be well rewarded.
- Conclusions/recommendations based upon prior analysis and application should enable candidates to gain Level 4 marks where appropriate.
- There were certain topics where some candidates lacked understanding; specifically these were the acid test ratio, critical path analysis and capacity utilisation.
- Assess questions will always require candidates to look at both sides of an argument and write a supported conclusion.
- Quality rather than quantity – selective arguments that are well developed will always be rewarded higher than identifying several arguments with limited explanation.
- It is not necessary to write lengthy answers to 20 mark questions. The space provided in the answer booklet should be sufficient.

Grade Boundaries

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