

Examiners' Report

June 2019

IAL Business WBS12 01

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Introduction

A good awareness of business was shown by students taking unit 2 - the first of the new International AS specification.

In general, students appeared to be well prepared for the topic areas covered by unit 2, although there are certainly areas where work is needed on requirements on particular command words.

The ability of the most able students was shown through relating their knowledge and understanding to the evidence presented, whereas those struggling with such concepts typically answered questions with a more generic approach. The levels of response questions required understanding to be developed and applied to the relevant evidence. Although this approach was adopted by some, there were instances where a more basic understanding was demonstrated, thus limiting the attainment of higher levels.

There didn't appear to be many issues with the length of time students needed to complete all questions set.

Question 1 (a)

There were 2 parts to the definition of venture capital and examiners were looking for references to a source of finance and greater risk. Candidates had to provide both parts to gain 2 marks.

Examiners accepted references to 'in return for a stake in the business' as well as 'small to medium sized business' and 'finance from a business angel' but did not accept vague references.

Examples were occasionally used by candidates but no marks are available for the use of examples.

Partial explanations were awarded 1 mark.

1 (a) Define the term 'venture capital'. (Extract A, line 14)

(2)

This is money that is invested into a business when it is starting. This money is from investors who particularly want a stake in the company or some form of ownership.



This response was awarded 2 marks as it has both the required parts in the explanation: 'money invested into a business' and 'want a stake in the company'.



This question will always have 2 marks available for a definition so ensure that your response is fully developed and is not a vague attempt at explaining the term.

There are no marks available for using an example, so do not rely on an example to lift an imprecise definition.

Question 1 (b)

Many candidates were able to calculate the correct answer and so were awarded 4 marks but some candidates confused gross profit margin with gross profit.

Marks could be awarded for showing workings but these were not necessary if the correct answer was shown.

Examiners awarded a maximum of 3 marks if the percentage sign was missing or if the answer was not given to 2 decimal places.

Some candidates were able to show knowledge of the formula and/or apply it with correct figures, but then failed to arrive at the correct answer.

(b) Using the data in Extract B, calculate, to two decimal places, the gross profit margin for Zwift in 2017. You are advised to show your working.

(4)

$$\text{Gross profit} \\ = \text{Revenue} - \text{Cost of sales}$$

$$\text{Margin} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100$$

$$\frac{15000000}{36000000} \times 100$$

$$= 41.67\%$$



This response scored 4 marks. It has clear workings to arrive at the correct answer of 41.67%.



Quantitative skills are an important part of the specification. Candidates will be expected to be able to apply a range of quantitative skills.

If the question asks for a percentage or an answer to two decimal places, then full marks can only be achieved by using a percentage and to two decimal places! Make sure you know how to round up or down correctly.

Question 1 (c)

Examiners were looking for responses to show either a definition or two separate advantages to Zwiift of using a business plan for the knowledge marks.

The advantages needed to be in the context of Zwiift to gain application marks and a cause/consequence given to be awarded analysis marks.

(c) Analyse **two** possible advantages for Zwiift of using a business plan when setting up the business.

(6)

By setting up a business plan Zwiift may gain two possible advantages. The first advantage Zwiift may gain is the overview of the market. When setting up a business plan it ^{may} requires the Zwiift to analyze the market, for competitors, prices, etc. For example, Zwiift has no direct competition in the market, this allows them to set the prices for the game.

The second advantage is the financial balance sheet for expenses. By setting up a business plan Zwiift ^{may have} ~~has~~ to calculate all of its ^{expenses} ~~operating~~ ~~cost~~ to set up the business. This may help ~~with~~ when searching for investors, because it shows them the exact ^{costs} ~~price~~. For example, Zwiift calculated that their initial investment was \$3 million, in order to set up the Zwiift.



This response scored all 6 marks as it met all of the criteria required by the AOs in the mark scheme - 2 x AO1 knowledge, 2 x AO2 application, 2 x AO3 analysis.

Knowledge of business plans is shown by the two advantages: the overview of the market and the discussion of financial information. This is given in the context of Zwift by using the extracts.

A consequence is then given for both advantages to gain the analysis marks.



Although a definition is acceptable for the knowledge marks, it is better to give advantages/reasons/disadvantages as required by the question. This is because these need to be given in context and with a consequence and/or cause to access all 6 marks.

The analysis question requires two factors and so giving only one will not allow access to all the marks.

Question 1 (d)

This question was marked using the levels based marking grid.

For an 8 mark 'discuss' question, there are three levels.

Examiners read the whole response and decide which level is the best match. If a response is lacking certain characteristics, examiners move towards the bottom of the level. If it is a strong match, they will move towards the top and this approach is used for all levels of response questions on the paper.

There were some good discussions regarding the advantages of having limited liability, but some failed to give a counter-argument and many failed to use the extracts, so presented a generic response. In addition, some candidates incorrectly discussed benefits of being a private or public limited company.

(d) Discuss the likely advantages for Zwiift of having limited liability.

(8)

Limited liability is when the business owner is only personally liable for the original amount invested in the company.

This is also one of the biggest advantages of having limited liability. Jon and Eric, owners of Zwiift, are only reliable for paying back their \$3m originally invested in the business, ~~if~~ if the company suddenly goes into ~~depth~~ debt. They will not need to pay of the ~~entire~~ company's debt because their legal identity is seperated from the business'. This will also mean that people are more likely to invest in Zwiift and buy shares, because they know the exact limit to their investment. It might therefore become easier for Zwiift to sell their shares and gain more capital.

However, one of the disadvantages of having limited liability is that the business has to publish their financial data online to the public. Everybody can see how the business is doing financially, including competitors. Rivals to Zwiift might therefore take advantage of this and use the data available to them to try and gain a competitive edge over Zwiift. Consequently, worsening Zwiift's sales and market share.



This response scored 7 marks.

It provides a two-sided argument and uses some relevant evidence in the answer, although this could be better.

There is also a good balance between the competing arguments, but it does not receive full marks as the chains of reasoning are not fully developed using the evidence.



The command word 'discuss' requires a two-sided argument.

In this question, likely advantages should have been discussed versus disadvantages or limits to the advantages. If a candidate doesn't provide a two sided argument or presents a generic answer, they would restrict their marks. A conclusion is not required for an 8 mark 'discuss' question.

Question 1 (e)

This was a levels based question with 4 levels.

Many candidates were able to assess the impact of a competitor entering the market, providing a two-sided argument.

For a level 4 response, examiners were looking for developed arguments stating both why it may have been an impact on Zwift, using evidence but also why the impact may have been less significant, again using evidence.

For a high level 4 response, examiners needed to see evaluation as well as a balanced awareness of competing arguments, leading to a supported judgement.

(e) Assess the likely impact on Zwift of a competitor entering the market of virtual reality cycling.

(10)

Competitors are rival companies which offers a substitute product and are targeting at the same group of consumers. The impact on Zwift upon a competitor entering will depend on the size of the competitor. It will be unfavorable for Zwift if gaming giants like Sony or Nintendo enter the market as they have significantly more resources and larger customer base. They may be able to develop higher quality VR cycling software and take away Zwift's customers. However Zwift can also counter large competitors by differentiating, such as a better connection with customers since the entrepreneur themselves are cyclers. Customers may find Zwift unique in software ~~com~~ market as they feel the enthusiasm to cycling in their product. On the other hand, Zwift is not going to be heavily impacted if new, smaller rivals enter the market. Zwift already have a customer base of 300,000

globally and a more mature product. Therefore new start-ups in the VR cycling industry are not likely to impact Zwift.



This response achieved Level 4 - 9 marks.

It has a well balanced, logical and coherent argument with good chains of reasoning. Arguments are developed and evaluated with good use of the extracts.

Although there is a judgement, it is quite basic, preventing the response scoring the full 10 marks.



The command word 'assess' will always require a more in-depth development and some evaluation of the arguments compared to the command word 'discuss'.

Candidates are encouraged to use a range of relevant evidence throughout their response to highlight their chains of reasoning. A supported judgement is also required.

Question 2 (a)

There were two parts in the definition of the term 'consumer trends' and examiners were looking for references to habits or behaviour and those involved in the use of goods and services or changes over time.

Candidates had to provide both parts to gain 2 marks.

Examiners accepted references to 'tastes and preferences' and to 'patterns'.

Examples were sometimes used by candidates but no marks are available for the use of examples.

Partial explanations were awarded 1 mark.

2 (a) Define the term 'consumer trends'. (Extract C, line 3)

(2)

Consumer trends ~~there~~ are the changes in consumer preferences over time caused due to seasonal variations, short-term economic variations and long-term changes such as new technology and or changes in tastes from fast food to organic vegan for example.



This response was awarded 2 marks as it has both the required parts in the explanation: 'changes in consumer preferences over time'.



This question will always have 2 marks available for defining the term, so ensure that your response is fully developed and is not a vague attempt at a definition.

There are no marks available for using an example, so do not rely on an example to lift an imprecise definition.

Question 2 (b)

The correct answer was calculated by many students to receive full marks, but some failed to use the correct figures, trying to deduct more than the direct costs from the revenue (or not knowing what the direct costs were).

As with all 4 mark 'calculate' questions, marks could be awarded for showing workings but these were not necessary if the correct answer was shown.

Examiners awarded a maximum of 3 marks if the dollar sign was missing.

Some candidates were able to show knowledge of the formula and/or apply it with correct figures, but then failed to arrive at the correct answer.

(b) Using the data in Extract D, calculate the gross profit for Starbucks for the 12 months ending 31 October 2017. You are advised to show your working.

(4)

$$\begin{aligned} \text{Gross profit} &= \text{revenue} - \text{cost of sales (direct costs)} \\ &= 22\,386\,800\,000 - 9\,038\,200\,000 \\ &= \$13\,348\,600\,000 \end{aligned}$$



This response scored 4 marks. It has clear workings to arrive at the correct answer of \$13 348 600 000.



As with 1b, full marks can only be achieved by using the correct units.

Although full marks can be achieved by just stating a correct answer, it is strongly advised to show full workings. It may be possible to pick up marks if an incorrect final answer is given.

Question 2 (c)

This question required two possible reasons why quality management may be important to Starbucks to gain the knowledge marks.

The reasons needed to be in context to gain application marks and a cause/consequence given to be awarded analysis marks.

Some students confused quality management with quality and so greatly restricted the marks they could achieve.

(c) Analyse **two** possible reasons why quality management may be important to Starbucks.

(6)

Quality management are techniques used by businesses to try and ensure that the quality of their products are up to standard, mainly to keep a good brand image and increase consumer loyalty. Quality management has different techniques such as total quality management, quality control & quality assurance. Starbucks is the second biggest coffee house chain in the UK and it also states in the extract consumers expect great quality, taste and service, this shows that quality is a big aspect of Starbucks so to make sure the consumers keep coming and sales remaining constant they have to make sure quality is ~~up~~ good and up to what consumers expect to not loose to its main competitor Costa coffee. Good quality means that consumers wouldn't mind paying a higher price to get better quality and since the average price of it's coffee which is around £2.50 which is above average, they will have to maintain quality if they want to charge a ~~pr~~ reasonable price and if they want to increase price.



This response scored all 6 marks as it showed two possible reasons, in context and analysed.



Just as with 1(c), although a definition is acceptable for the knowledge marks, it is better to give advantages/reasons/disadvantages as required by the question. This is because these need to be given in context and with a consequence and/or cause to access all 6 marks.

The analysis question requires two factors and so giving only one will not allow access to all the marks.

Question 2 (d)

Like 1(d), this was marked using the levels based marking grid and consisted of 3 levels.

Candidates were generally able to provide a two-sided response which focused on budgeting, but some were generic in nature instead of using the evidence to put their response in the context of Starbucks.

Starbucks uses cost and revenue budgets at each of its coffee houses in order to meet business objectives such as profit maximisation.

(d) Discuss whether budgeting will always allow Starbucks coffee houses to meet its objectives.

(8)

By Starbucks utilizing cost and revenue budgets it may help to ~~stay~~ ^{stay} on track. ~~and~~ With cost budgets it help to minimize ~~the~~ ^{ris} identify the increases or decreases in costs. With revenue budgeting, Starbucks may be able to predict better forecast which may allow them to take faster decisions.

Cost budgeting helps to identify the variances between the predicted figures and actual figures. By identifying the differences as favorable or adverse (bad) they ~~are~~ ^{may} able to analyze ~~the~~ the reasons behind them. ~~If~~ ~~star~~ If Starbucks analyzes the trends that are favorable they may be able to maximize it profits from that trend. The same ~~loss~~ goes for an adverse ^{variance} ~~variance~~, which they can ~~be~~ eliminate. the trend and ~~may~~ maximize profits. For example, by giving discounts ~~of~~ for people using their own cups, Starbucks minimizes the cost for ~~people~~ buying coffee cups.

Revenue budgeting may help forecasts become more accurate. It means Starbucks may use its revenue budgeting data to predict future sales. This may help to create a better decision in the future. Which may minimize the risk of taking a wrong decision. For example, in 2017 Direct cost was \$9,038,200,000 this may help them predict the 2018 one, and could make a decision to lower the costs that will benefit Starbucks.



This response scored 6 marks (Level 3) as it discusses budgeting in context very well. However, it fails to reach a higher mark within the top level because it has a lack of evaluation.



The command word 'discuss' requires both sides of an argument. In this question, whether budgeting will always allow Starbucks to meet its objectives, based on the evidence provided in the extracts.

Some students only looked at one side, thus restricting their marks due to not providing a balanced awareness of competing arguments. A conclusion is not required for an 8 mark 'discuss' question.

Question 2 (e)

As with 1(e), this was a levels based question with 4 levels.

Some candidates confused the meaning of legislation and so assessed the risk of customers going to Costa instead of Starbucks if the 25p extra was charged. Others mistakenly talked about Starbucks receiving 25p extra revenue per plastic cup.

Better responses looked at the use of reusable cups reducing the impact and/or referred to elasticity when talking about whether people would continue to buy as much coffee at coffee houses if the price increased due to the legislation.

(e) Assess how legislation requiring an additional 25p charge on disposable coffee cups is likely to affect Starbucks.

(10)

One way the change in legislation is likely to affect Starbucks is that there will most likely be a decrease in demand. With a price increase of "25p", combined with coffee and Starbucks products being relatively price elastic, demand is likely to fall by a small amount. This return will likely reduce profits as the spare 25p will be "going to charity". However, with consumer trends changing so people are willing to "pay more" in order to protect the environment, many people may not stray away from buying from Starbucks, especially if the legislation affects all businesses. However, the consumer trends came from plastic bags, where there was only an increase of 5p, and not as large as 25p so the people may not be willing to pay more.

On the other hand, there could be a reduce in costs ~~with~~ for Starbucks because, with the "discount" for using their own cups, Starbucks will be moving away from supplying coffee cups that are not disposable which will potentially reduce costs by a large amount. Alternatively, profit margin may be reduced due to the cost of producing reusable cups which may affect the business's yearly profits. ~~However, with Starbucks being based in many countries~~

Overall, the change in legislation may affect Starbucks greatly due to a potential decrease in demand due to the "25p" price increase. However, with Starbucks being a multinational company, and this legislation being only in the UK, the overall affect to the whole of Starbucks will be minimal.



This response scored 8 marks (level 4) as it evaluates points using the evidence very well. There is a balanced assessment and it has a supported judgement.

A limited chain of reasoning for the points made stops it achieving the full 10 marks.



As with 1(e), the command word 'assess' will always require more depth and development of the concept and chains of reasoning compared to the command word 'discuss'.

Candidates are encouraged to use a range of relevant evidence throughout their response and also to demonstrate their chains of reasoning.

Generic answers are not going to score high marks!

Question 3

This is the highest mark question on the paper, worth 20 marks and with 4 levels.

The understanding demonstrated by candidates was strong in terms of depreciation, but the evidence was often just narrated rather than used.

This is an 'evaluate' question meaning that ideas needed to be developed and presented with understanding of the significance of competing arguments rather than simply stated as separate points and a generic list of why the depreciation did affect exports and why something else may have affected them more.

- 3 Evaluate whether the depreciation of the pound sterling (£) is likely to be the main reason for the increase in demand for British products between 2016 and 2017.**

(20)

Exchange rates are one currency in term of another, and when the currency, in this case the pound sterling (£), depreciates it means the value of the £ falls for overseas customers.

Considering the drastic fall of the £ since July 2015, the likelihood of this being the main reason for the increase in demand for the British products overseas, ~~is~~ is very big. Since 2015 it has depreciated from 1.40 in euros (€) to €1.14 in 2017, which is nearly a fall by 20%. With a fallen value of the £ for countries with the €, exports from the UK has become significantly cheaper. They still get the same amount as before, but for less money.

They pay less for the same amount, ~~at that~~ although the UK businesses' revenue is not affected by this, making it a benefit for both parties. When the price has fallen for British goods, they ~~are~~ will become more attractive to overseas buyers and more sales will take place. In Extract E it states that 'The office for National Statistics reports that the UK exported £550bn in goods and services in 2016'. From 2015 to 2016 is when the £ depreciated the most, over only one year, by exactly 15%. There is a clear correlation between these numbers, and it is therefore very likely that the depreciation of the £ is the cause of the increase in demand for UK goods.

However, there is likely to be many other external influences to play a part in this. Maybe prices in the foreign country has gone up and they are experiencing national inflation. The customers might therefore choose to buy their goods overseas instead because prices are lower. The type of good is also an important indicator. Maybe other countries have taken particular products off the market and consumers are therefore forced to buy them overseas in the UK, if it is a necessity.

On the other hand, a third factor is also likely to play in. It might be argued that simply the good quality of British products is the main reason for the increasing demand. UK goods have created a positive perception for their products, good quality, a reputation for good customer service and so on. This is very likely to have a positive effect on the demand for their products. Customers are willing to pay higher prices if the quality of the product is better than average, so even as exchange rates vary the demand will remain. As the quality is continuously improved by British companies, they are likely to attract more and more customers to their business and increase their sales. The increase reported from 2016 to 2017 might therefore just as well be a result of improved quality and familiarity of UK goods and services. A positive perception is likely to attract many new customers as well as maintaining the ones they already have, so even if exchange rates were to appreciate, the demand would remain because buyers have become loyal to the business.

In the end, the depreciation of the £ is most likely the main reason for the increasing demand. It becomes cheaper for overseas customers and sales will therefore rise. If the £ were to appreciate for example, customers will most likely turn to national business instead to purchase their goods. So in the short run, exchange rates has a big effect on demand, where as maybe in the long run, quality will be a more ~~important~~ important factor to UK companies.



This response achieved 18 marks (level 4). It shows an excellent two-sided argument which matches the majority of the level 4 descriptor. Although it does use the extracts, better use would have enabled it to achieve full marks.

Having started in the middle of level 4, examiners use the standard marking method for levels of response questions and start at a midpoint of 18. It cannot go up as it is not supported throughout by relevant and effective use of business behaviour/context, and there is no need to go down because arguments have been fully evaluated throughout.



This question is worth 25% of the marks and so it is essential to ensure enough time is spent on it.

It is important for candidates to remember that examiners are looking for an awareness of how significant competing arguments are. It is advisable to look at the descriptor table in the mark scheme when practising essays.

Paper Summary

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

- Questions 1a and 2a are worth two marks each and so will need two parts in the definition of the term to attain both marks. Examples are not rewarded.
- Be careful to read the whole of the question. Certain requirements are given which were not acted upon by some candidates in this series, e.g. when answers are required 'to two decimal places'.
- Candidates need to understand the requirements of the command words in the questions. This will allow them to access marks requiring each of the four assessment objectives.
- Quantitative Skills will be tested throughout the paper. These may be in the form of diagrams/graphs, calculations or using the data in the Extracts to provide the application in the questions.
- Application marks will not be awarded for simply repeating evidence in the extracts. The evidence needs to be used in the response.
- The command word 'Discuss' requires a two sided argument in order to achieve full marks.
- There may be more answer space provided than you need to write your responses. This is also indicated on the front cover of the question paper.
- The use of relevant evidence is required throughout and this can be from the Extracts provided or using examples provided by the candidates themselves. The Extracts are there for a reason – so use them!

Grade Boundaries

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