



Examiners' Report Principal Examiner Feedback

October 2020

Pearson Edexcel International Advanced
Subsidiary In Business (WBS12/01)

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Introduction

This was the second October sitting of the paper and the fourth sitting overall. As with the previous series, the paper was split into 3 sections: Sections A and B each had five questions, ranging from 2 to 10 marks and Section C had one 20 mark question.

In general, candidates appeared to be well prepared for most of the topic areas on this paper. However, there were some topics where that did not appear to be the case. The ability of the most able candidates 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 and/or inaccuracy. 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 did not appear to be many issues with the length of time students needed to complete all questions set.

Section A

1a)

There were 2 parts to the question to define health and safety and examiners were looking for references to 'measures put in place by a business' and 'to prevent injury or harm'. The latter could have been harm to employees or customers. Equally, 'standards put in place by a firm to meet legislation', or any other appropriate response, would have been worth 2 marks. Candidates had to provide both parts to gain 2 marks. However, general reference to the wellbeing of an employee or customer was not accepted as a definition of health and safety. Examples were occasionally used by candidates but, as in the previous series, no marks are available for these. Partial explanations were awarded 1 mark.

Tip: Unlike with higher mark tariff questions, reference to information in the extract(s) is not required for define questions.

1b)

Examiners credited knowledge of a correct formula (1 mark) and correct application of figures (2 marks). For these application marks, it was important that the calculation showed that both figures represented millions. For full marks the final answer needed to be an accurate monetary value, therefore be correctly rounded to \$16.15.

Tip: In many cases the answer requires units, in this case a '\$', meaning that full marks can only be achieved by using the correct units. On this question, incorrectly using '£' or '%' is not applying the extract evidence appropriately and so again, full marks cannot be achieved.

1c)

Good responses were able to analyse two problems Lotus Garments Co. might face by using JIT. The problems could relate to reliance on suppliers, ordering or administrative costs, reduced bulk buying savings and/or being difficult to adjust to changes in demand, along with any other suitable response.

(c) Analyse **two** possible problems for Lotus Garments Co. of using just in time (JIT).

(6)

Just in time is when a business decides to decrease their buffery stock to have a limited precise stock available to reduce costs.

One problem for Lotus Garments may be that they will depend a lot in the flexibility and timing of suppliers. If Lotus Garments material suppliers for leather for example, Lotus Gourmet wont have enough stock to keep supplying & producing meaning they will ~~decrease production~~ not meet customers needs & expectations that will lead to

decrease in sales and ~~decrease~~ because of a decrease in consumer loyalty that will decrease their profits.

Secondly, another problem would be that if there is an increase in the trends of demand for clothing such as jackets & trousers Lotus Garments wont be able to react to this increase due to their low buffery control (26,000,000 items of clothing) therefore they will not be able to compete in the market reducing their market share ~~for~~ their sales volume and revenues

The above exemplar was given the full 6 marks available. It does show a valid definition but also states two separate problems. Both of these are applied and analysed. 'Depend in flexibility and timing of suppliers' (1 x knowledge mark), 'material/leather' (1 x application mark), 'not meet customer needs will lead to decrease in sales....profits' (1 x analysis mark). 'Won't be able to react to increase in demand' (1 x knowledge mark), 'clothing such as jackets and trousers' (1 x application mark), '26 000 000 items' would have been 1 x application mark but maximum already achieved. 'not be able to compete in the market...revenues' (1 x analysis mark).

Tip: There are 2 knowledge marks, 2 application marks and 2 analysis marks for analyse questions. Although the knowledge marks can be given for an appropriate definition instead of stating 2 ways/advantages/reasons etc., it is not possible to apply or analyse the definition and so marks are likely to be limited with this approach and students should focus on stating, then applying and analysing the two ways/advantages etc.

1d)

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 a varied range of discussions regarding the importance of using TQM for Lotus Garments Co. but it was evident that a number of candidates did not understand its meaning. Many of these responses tended to talk very broadly about quality itself and so did not answer the question. Such responses did not score high marks.

(d) Discuss the importance to Lotus Garments Co. of using total quality management (TQM) to remain competitive.

(8)

Total quality management is a method of ensuring the highest quality is met by ~~employees~~ employees being responsible for quality throughout production. This may lead to a business gaining a competitive edge. ~~that~~ The 11800 skilled workers inculcating quality standards throughout the business when producing the jackets and jeans would lead to high quality, ~~clothes~~ clothes being made. Consequently, this would help the Lotus Garments Co gain a competitive edge, increasing customer loyalty which would mean repeat purchases which would help ensure their objective of increasing sales from Egypt, increasing market share to remain competitive.

Moreover, using total quality management would reduce wastage for the business. As employees are responsible for identifying defects in production when making the 26 000 000 clothes each year for V.F corporation, this would mean the wastage and error made by workers are minimized as there is pressure to meet quality standards. Therefore, overall costs would reduce below \$20 million, increasing profits for Lotus Garments Co. allowing to remain competitive.

However, total quality management needed would mean all employees would have to be trained ~~at~~ and skilled to maximize quality demands being sold to Levis Strauss and Co. This would then increase costs which may be passed down to consumers as higher prices, reducing international competitiveness ~~in~~ in the clothing market.

Hence, when demand from price conscious consumers fall from jeans exported to the US, sales may fall for the banner, reducing potential market share that may tarnish the business' reputation, reducing demand for products, making them less competitive. Also, TOM may

This exemplar is a strong response, which scored 7/8 marks. It is only lacking balance in the counter argument.

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

1e)

This was a levels-based question with 4 levels. Although many candidates showed a basic understanding of interest rates, too many made unsupported statements about interest rate increases being problematic for the firm due to rising costs. To achieve a higher level, such a statement would need clarity regarding the link between higher interest rates and the cost of borrowing with, whether Lotus Garments Co. were in a position where they had borrowed money in the first place. Stronger responses successfully assessed this aspect using the evidence that the firm were looking to expand and so may well have had a need to borrow.

In addition, level 4 responses often developed arguments, using further evidence from the extracts such as the fact many garments are exported and therefore the firm is largely unaffected by the rate of interest and/or that it may benefit from higher rates of interest if it had saved its retained profit.

(e) Assess the likely impact on Lotus Garments Co. of the recent changes in Egyptian interest rates.

(10)

Interest rate is the price of borrowing money. The higher the interest rate, the more expensive it is to borrow money. The interest rate in Egypt started in 2010 with a percentage of 8%, then it kept increasing with some fluctuations over the years to reach a maximum of 19% in 2018. Lotus Garments Co. is planning to increase its sales in Egypt and reduce its annual total costs of \$420m. ~~2000~~ An increase in the interest rates can affect the planning of Lotus Garments Co. Such increase will make Lotus Garments Co have a slower investment as most businesses

are less likely to borrow money. Furthermore, customers are less likely to borrow money and spend on non-essential products which may reduce demand and sales of Lotus Garments Co. Also, an increase in interest rate means lower spending on credit cards which will also reduce sales. This will avoid Lotus Garments Co of reaching its target to increase its sales in Egypt and also to reduce its costs of \$420m. As a result of the interest rate, ^{prices of} supplies and wages will rise which will push Lotus Garments Co to increase their prices. However, an increase in the interest rate in Egypt will have little effect on overseas customers as

the prices may remain relatively low according to their currencies. Most pairs of jeans are exported to the USA so this will produce high sales and compensate for the lower sales in Egypt. A minimal increase in price will not affect exports with stronger currencies. As a result, ~~the~~ interest rate increasing in Egypt will have a major effect only locally but a minimal effect towards overseas customers.

Level 4, 8 marks out of 10 was achieved by the above response. It has a balanced argument which is full of context. It doesn't reach the top of the level because the analysis is not as strong as would be preferred from a full mark response.

Tip: 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.

Section B

2a)

Again, there were 2 parts to the question of define break-even and examiners were looking for an accurate definition: 'where total cost equals total revenue' or 'where neither a profit nor loss is made'. An accurate formula was accepted for full marks but a basic reference to costs and revenue was not enough to score both marks.

Tip: 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 for examples.

2b)

Many candidates were able to calculate the correct answer of 30.75% and so were awarded 4 marks. 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. 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 to 2 decimal places. As this is stated in the question, it is important that the answer is correctly rounded to gain full marks.

Tip: 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.

2c)

This area of the specification did not appear to be well understood by a high number of candidates. Instead there was often a lot of incorrect guesswork relating to healthy lifestyles and eating which did not score many, if any marks.

(c) Analyse **two** reasons why *Soul Bowl* could be described as a lifestyle business.

(6)

Lifestyle business is where the business does not always focus on profit maximising, where the founder usually have a fond interest / lifestyle that they want to promote through the business. For co founder for *Soul Bowl*, they have shared interest in nutritious food and healthy lifestyle. When ~~they~~ Alexandra, one of the cofounder was ~~not~~ inspired by the healthy incredible food such as smoothie bowl in Bali and want to set a business to sell these smoothie bowl to promote this lifestyle. It is a lifestyle business because as Stacey (One of the co founder) said, ~~they~~

their ingredients quality is always high which can mean the cost of ingredient will be quite high and will not be able to do a ~~to~~ profit maximisation by lowering cost. Furthermore, the cofounder said with the positive attitude and plenty of energy in their ideas and prepared to work hard (which is also a lifestyle) ~~they~~ it helps earn enough during summer working to be able to spend winter relaxing on a low budget in Bali while sampling new ideas for ingredients. It shows that they are selling smoothie bowl in a more relaxing attitude ~~than~~ and focus on sampling new ideas for ingredients instead of focusing on profit maximisation.

This response did score the full 6 marks. It is not necessary for the order to be knowledge, application, analysis; these can be mixed.

'Interest in nutritious food and healthy lifestyle' – 1 x knowledge

'Inspired by healthy food, such as smoothie bowl in Bali' – 1 x application

'Want to start business to sell smoothie bowls to promote lifestyle... quality is always high' – 1 x analysis mark

'Positive attitude to work hard helps earn enough' - 1 x analysis

'Summer working... winter relaxing in Bali' – 1 x application
'Focus on.... instead of profit maximisation' – 1 x knowledge

Tip: Any area of the specification can be targeted by any of the questions on this paper. It is therefore important to give sufficient teaching and learning time to all topics on the specification.

2d)

Like 1d, this was marked using the levels-based marking grid and consisted of 3 levels. Candidates were generally able to provide a response which focused on personal savings being a suitable source of finance but some were generic in nature, instead of putting their response in context. Better answers were able to apply evidence from the extract such as the savings coming from 6 years of working in hospitality. Some responses failed to discuss a valid counter argument but a pleasing number did recognise relevant potential issues, such as the limited experience of the owners putting the savings at risk if the business failed.

Stacey and Alexandra used their personal savings to set up *Soul Boul*.

(d) Discuss whether the use of personal savings is a suitable source of finance for a business such as *Soul Boul*.

(8)

Personal savings is known as an internal source of finance. A source of finance is a method or place that a business can gain money from. Personal savings can be advantageous as they are very quick to gain. Unlike external sources of finance where a business has to apply and qualify for financial aid, personal savings already exist. For *Soul Boul*, both Alexandra and Stacey had saved a lot of their wages for the past six years and therefore are capable of using that money.

However, a disadvantage is that personal savings may not be sufficient since business costs are usually expensive and may need lots of ~~£~~^{money} to set up. Since Stacy and Alexandria are focusing on buying high quality ingredients they're likely going to have higher costs than other business which may lead to their funds to be insufficient. Another benefit of the use of personal savings is that the business does not owe the bank and therefore will not be needing to repay a loan with interest, ~~or~~ this will help them with managing their ~~sales~~ income better.

The above exemplar was given 6 marks out of 8, in the top level. It has a two-sided argument which uses the extract but could benefit from developing the chains of reasoning further.

Tip: The command word 'discuss' requires both sides of an argument. Some candidates only look at one side, thus restricting their marks due to not providing a balanced awareness of competing arguments.

2e)

As with 1e, this was a levels-based question with 4 levels. Candidates were able to provide a range of arguments to assess whether Soul Boul may avoid failing as a business or not. The use of evidence, e.g. competition, quality and social media, was reasonably well applied in a large number of responses but chains of reasoning and developed arguments were sometimes lacking.

Before setting up *Soul Bowl* with her co-founder, Stacey considered her experience of working at a hotel that failed.

(e) Assess whether the causes of the hotel failing as a business are likely to be avoided by *Soul Bowl*.

(10)

The hotel would've have failed due to increased competition. Extract C states that there ~~were~~ were three other hotels competing for business within 1km. This increase in competition would've caused the hotel failing. However Stacey and Alexandra operate in a niche market. As not many businesses make smoothie bowls. This ~~ensures~~ ~~ensur~~ makes Soul bowl to avoid the cause of the hotel failing.

Also, Stacey states that 'the hotel manager was not interested in maintaining quality. This would have caused a fall in the no. of guests coming in which would've caused the hotel to fail. Stacey stated that the quality of their ingredients is always high. This ~~m~~ ensures the quality of their smoothie bowls are upto standards, which prevents a fall in the no. of consumers not allowing soul bowl to avoid the cause of the hotel failing.

However, the hotel could've failed ~~becom~~ because ^{tourists} people have been facing recessions in their countries which led to the no. of guests to ~~fall~~. This could mean that Soul bowl should take into account if there's a recession

in the country, people's incomes would fall causing their revenue of NZ\$ 104 625 to fall as people wouldn't buy smoothies

~~Also,~~

Also, Stacey and Alexandra should take into account that even though there are ^{or less} no competitors to them, the level of competition is likely to increase in the future as many people can start up a smoothie business. This makes the cause of hotel failing to be unavoided by Soul Bowl.

The response is only missing a final judgement and was awarded 9 out of 10 marks. It has a good USE of the extract to answer the question, not a narrative which just copies the information.

Tip: As with 1e, 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 evidence throughout their response and also to develop their chains of reasoning. Generic answers are not going to score high marks!

Section C

3)

This is the highest mark question on the paper, worth 20 marks and with 4 levels. However, although the understanding demonstrated by candidates was often reasonable, some candidates struggled to apply the extracts appropriately or provide balanced arguments.

3 Evaluate whether a historical or zero based budget is more likely to help Kenya Airways return to being a profitable company.

(20)

A budget is a quantitative economic plan which can allow a business to set goals and objectives and control and monitor cash flow. It allows a business to assess whether its performance that year was successful by seeing whether the set goals were met. A historical budget is a type of budget which uses historical data, which is past data of the business such as the number of domestic flights taken from Kenya Airways from 2015 to 2017. This type of budget uses historical data to predict estimates for future data such as the possible number of domestic

flights taken from Kenya Airways in 2018 and 2019. A historical budget can allow Kenya Airways to plan for ^{the} future according to the estimates in order to promote growth and cost control. ~~The rise in fuel prices between June and November 2017 could increase the costs for Kenya Airways therefore it could~~ The gradual decrease in net loss for Kenya Airways shows that other factors such as ~~fixed costs~~ ^{variable} or cash inflow could be increasing and the past data can be examined to identify any significant differences in the data which can show consumer trends or seasonal or economic variations. Such estimates can be used to prepare for future possible occurrences such

as the historical data regarding the 20% fall in domestic flights in 2017 can be used to decide appropriate counter

measures to maintain profit, such as Kenya Airways reducing wages or employing a more flexible workforce to cut down costs.

A significant issue with the use of the historical budget is that any inaccuracies in the data can severely impact the analysis and make estimates unreliable. Furthermore, the historical budget usage is less suited to dealing with incidents caused by external forces such as extremely harsh weather during December delaying flights ~~which~~ causing a drop in ~~sales~~ expected sales ~~as~~ ~~would have been estimated to~~ Past data may have given estimates that the number of flights taken increased in December due to the Christmas season with more overseas trips being taken. In preparation for that, Kenya Airways may have increased staff and upgraded flight conditions

to meet expected customer demand, and an external force such as bad weather could cause the Airway to suffer more unpredicted losses. Moreover, the suitability of a historical budget is decreased in Kenya's fluctuating economic climate as historical data may ~~not~~ be less likely to reflect future situations. On the other hand, a zero-based budget is a type of budget where all values such as profit, loss, cash inflow and outflow are set at zero and the ~~to~~ required funds must be pitched for. This requires the use of extensive market research to support a manager's or project leader's demand for funds which can be time consuming and expensive. A zero-based budget is also linked with ~~the~~ opportunity cost as the next best alternative option is

Forgone in favour of the option which the ^{budget} funds are allocated towards. This type of budgeting is arguably more suitable to Kenya Airways as it is easier to adapt to Kenya's volatile economic climate as budget funds are allocated according to current conditions and it can motivate employees to work harder to ~~meet the~~ ^{not allow} the resources to not go to waste. It can also increase competitiveness between staff and bring about innovation and increased productivity as employees need to fight to justify their ideas ~~and~~ ^{for} business operations. However, the use of a historical budget allows for a variance analysis. Variance is the difference between the actual financial outcome and the budgeted one. If there is an adverse variance, ~~Kenya Airways~~ ^{where the} actual outcome is worse than the budgeted one, Kenya Airways can investigate the causes of the differences and thereby

increase efficiency and productivity but cutting out the cause of the loss such as identifying their fuel supplier is more expensive and switching to a cheaper supplier. However, zero-based budgets can maximise waste minimisation as it is ensured that resources are allocated to the most necessary source such as allocating funds to increase the quality of in-flight meals and other conditions to increase customer satisfaction and profitability. This serves to meet the Chief Executive expectations of growth and cost control to increase profitability. Therefore, a zero-based budget may be more suitable for Kenya Airways.

Low level 4 was reached by this response, with 16/20 marks. Knowledge and understanding are shown and is applied well. There are two sides which are in context and analysis is present, as is evaluation but it doesn't flow very well and is not nuanced.

Tip: 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 the advantages and disadvantages of these two types of budgeting.

Summary

Candidates are offered the following advice and reminders:

- 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 are not always acted upon by some candidates, e.g. only providing **one reason** in 'explain' questions.
- 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, often, from candidates' own knowledge. The Extracts are there for a reason – so please use them!

