



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme January 2003

GCE

Business Studies

Unit BUS1

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General marking guidance

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through a full A Level course.

Positive marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark range

You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit no marks should be given.

The use of Levels of Response

Levels of Response marking requires examiners to follow the logic of a candidate's answer. A concept which would receive credit only for knowledge in one context could become a means of analysis in another. For instance, in the question: "Discuss the BGD Company's marketing strategy", a candidate who writes: "approaches to a strategy include SWOT and the Boston Matrix" is showing knowledge. A brief, accurate explanation of the Matrix shows understanding, whereas a candidate who uses the Matrix to examine the BGD Company's case is showing the skill of analysis. **Please note that there are other ways to show analysis.**

What then of evaluation? This is the hardest skill to define because judgement can only be shown in context - and that context is not only the one set in the assessment unit, but also by the candidate's own answer. Evaluation is **not** shown by drilled phrases or approaches such as: "On the other hand ..." or "Business operates in an ever-changing ...". It is shown through the weighting of the candidate's arguments, the logic (and justification) of his/her conclusions.

Quality of language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

- | | | |
|---------|--|----------------|
| LEVEL 3 | Moderately complex ideas are expressed clearly and reasonably fluently, through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling. | 3 marks |
| LEVEL 2 | Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas | 2 marks |
| LEVEL 1 | Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas. | 1 mark |
| LEVEL 0 | Ideas are expressed poorly and sentences and paragraphs are not connected. There are errors of grammar, punctuation and spelling, showing a weakness in these areas. | 0 marks |

Total 3 marks

Unit 1: Marketing and Accounting and Finance

1

Total for this question: 30 marks

(a) Explain what is meant by the term “niche market” (line 16).

(3 marks)

	Content 3 marks
Level 2	3 marks Candidate demonstrates good understanding of phrase
Level 1	2-1 marks Candidate demonstrates some understanding of phrase
Level 0	0 marks No relevant content present

A **niche market** is a small segment of a larger market.

Markers' note

2 marks for: 'segment' only
part of a larger market

1 mark for: not mass market
targeted
unique
gap

(b) Cafédirect pays growers 60 % of the price of the coffee when placing an order. Outline **one** financial benefit to coffee growers that may result from this action. (3 marks)

	Content 1 mark	Application 2 marks
Level 2		2 marks Candidate offers effective development of benefit in relation to scenario
Level 1	1 mark Candidate identifies a single relevant benefit or shows understanding of cash flow	1 mark Candidate offers limited development of benefit in relation to scenario
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge

Relevant answers might include the following:

- The payment will improve the cash position of the coffee growers – important to relatively poor farmers.
- Coffee growers may not need to borrow money to pay their production costs, reducing interest charges.
- The early payment may prevent some coffee growers from becoming bankrupt.
- This action may assist some coffee growers in expanding their businesses.

(c) Cafédirect's decision to launch 5065 was based on the results of primary market research. Explain **two** reasons why the company may have decided to carry out this research. (6 marks)

	Content 2 marks	Application 4 marks
Level 2	2 marks Candidate identifies two relevant reasons/ shows good understanding of primary market research	4-3 marks Candidate offers effective development of reason(s) in relation to scenario
Level 1	1 mark Candidate identifies a single relevant reason/shows limited understanding of primary market research e.g. understanding of market research	2-1 marks Candidate offers limited development of reason(s) in relation to scenario
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge

Relevant answers might include the following:

- Cafédirect has relatively little knowledge of the needs of consumers in the mass market for instant coffee.
- The company's products were not selling well and Cafédirect could not develop a new marketing strategy without more information.
- Cafédirect could be accused of focusing too much on the (fair trade) product and paying too little attention to the needs of consumers.
- The company may have wanted more information on how to make the most effective use of its USP (fair trade).

(d) Analyse **two** ways in which effective distribution might help Cafédirect to market 5065 successfully. (8 marks)

	Content 2 marks	Application 2 marks	Analysis 4 marks
Level 2	2 marks Candidate identifies two relevant ways or shows good understanding of distribution	2 marks Candidate applies knowledge effectively	4-3 marks Good analysis of implication(s) of effective distribution
Level 1	1 mark Candidate identifies single relevant way or shows limited understanding of distribution	1 mark Candidate makes attempt to apply knowledge	2-1 marks Limited analysis of implication(s) of effective distribution
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge	0 marks No analysis present

Relevant responses might include those set out below:

- Instant coffee may be an impulse purchase and, if shops do not stock the product, consumers will not buy it.
- Cafédirect is intending to move into a mass market and will need to ensure that its product is distributed more widely and stocked in a larger number of shops.
- Help to keep costs as low as possible thereby enhancing price competitiveness.
- The company has produced high quality packaging designed to attract the consumers' interest – it is important that this product is displayed prominently and that point of sale displays are eye catching.
- Many consumers had not heard of Cafédirect's old brand of instant coffee. Partly this may have been because it was not widely available.

(e) Cafédirect has decided to stop selling its instant coffee in a niche market and to launch it into a mass market. Discuss the case for and against this decision. (10 marks)

	Content 2 marks	Application & Analysis 5 marks	Evaluation 3 marks
Level 2	2 marks Candidate shows good understanding of relevant factors/offers good definition of mass market	5-4 marks Good analysis of argument in context	3 marks Sound judgement shown in answers and/or conclusions
Level 1	1 mark Candidate shows limited understanding of relevant factors/offers limited definition of mass market	3-1 marks Limited analysis of argument/application to scenario	2-1 marks Some judgement shown in response
Level 0	0 marks No relevant content present	0 marks No analysis present	0 marks No evaluation present

Relevant answers might include the following.

For the decision:

- The old product was not selling well and Cafédirect needed to take some action to remedy the situation.
- The move to the mass market was supported by market research carried out by the company.
- The decision by the Co-op to stock 5065 in 1500 stores increases the chance of the move to a mass market succeeding.
- The company has a differentiated product (fair trade) that may help it to succeed in a mass market, so long as it has a quality image.

Against the decision:

- The company has relatively little knowledge of the mass market for instant coffee or the consumers who make it up.
- By paying growers in less developed countries a higher price Cafédirect may find it difficult to compete with established suppliers of instant coffee.
- Distribution may still be a problem in spite of the Co-op's decision. It is important that other major supermarkets stock 5065.
- Market research suggests that consumers in the mass market are not interested in fair trade products.

2

Total for this question: 30 marks

(a) What is meant by the term “profit centre” (line 19)?

(2 marks)

	Content 2 marks
Level 2	2 marks Candidate demonstrates good understanding of phrase
Level 1	1 mark Candidate demonstrates some understanding of phrase
Level 0	0 marks No relevant content present

Profit centre – a part of an organisation’s activities for which it is possible to calculate costs, revenues and hence profits.

(b) Explain **one** disadvantage to Archerman of using cost-plus pricing for the CDs and DVDs produced at the new factory in Swansea. (4 marks)

	Content 2 marks	Application 2 marks
Level 2	2 marks Candidate identifies a relevant disadvantage and shows some understanding of cost-plus pricing or shows good understanding of cost-plus pricing	2 marks Candidate relates disadvantage effectively to circumstances of Archerman plc
Level 1	1 mark Candidate shows some understanding of cost-plus pricing or identifies a relevant disadvantage of cost-plus pricing	1 mark Candidate attempts to relate disadvantage to circumstances of Archerman plc
Level 0	0 marks No relevant content present	0 marks No attempt to apply knowledge

Relevant answers might include the following:

- This approach to pricing ignores the market and this may be unwise as the company faces fierce price competition.
- The company may miss out on the chance to charge a higher price and will pass on the benefits of producing on a larger scale to its customers.
- Only works effectively if all output is sold and this may be difficult for Archerman to predict as it is increasing its output considerably.

- (c) Archerman plc has set a price of £1.10 per disk.
- (i) Calculate the level of profit or loss the company will earn from the new factory if it produces and sells 5 million disks per year. *(3 marks)*
- (ii) Calculate the contribution received per disk if the factory produces and sells 15 million disks each year. *(4 marks)*

(i)

	Content 1 mark	Application 2 marks
Level 2		2 marks Candidate calculates loss successfully
Level 1	1 mark Candidate demonstrates some understanding of revenue, costs & profits relationship	1 mark Candidate makes limited attempt to calculate loss
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge

Relevant answers might include the following:

- Revenue is 5 million \times £1.10 = £5 500 000
- Costs are £7 400 000
- **Loss** = £5 500 000 – £7 400 000 = (£1 900 000)

(ii)

	Content 1 mark	Application 3 marks
Level 2		3 marks Candidate calculates contribution per unit successfully
Level 1	1 mark Candidate demonstrates understanding of contribution	2-1 marks Candidate makes limited attempt to calculate contribution per unit
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge

Relevant answers might include the following:

- The selling price is £1.10 per disk. With sales of 15 million disks revenue would be £16 500 000.
- At a level of output (and sales) of 15 million per year, the total variable costs would be £9 000 000.
- Total contribution would be £16 500 000 – £9 000 000 = £7 500 000.
- The contribution per unit is £7 500 000/15 000 000 = **£0.50 or 50 pence**.

Alternatively:

- The total variable cost of 15 million disks is £9 000 000.
- Therefore the variable cost per unit is 9 000 000/15 000 000 = £0.60.
- Contribution per unit = £1.10 – £0.60 = **£0.50 or 50 pence**.

(d) Archerman plc needs to raise £20 million to build and equip its new factory in Swansea. Analyse **two external** sources of finance Archerman might use to raise the funds it requires. (8 marks)

	Content 2 marks	Application 2 marks	Analysis 4 marks
Level 2	2 marks Candidate identifies two relevant sources or shows good understanding of external sources of finance	2 marks Candidate applies knowledge effectively	4-3 marks Good analysis of external source(s) of finance
Level 1	1 mark Candidate identifies single relevant source or shows limited understanding of external sources of finance	1 mark Candidate makes attempt to apply knowledge	2-1 marks Limited analysis of external source(s) of finance
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge	0 marks No analysis present

Relevant responses might include those set out below:

- Share capital offers the benefit of not having fixed interest charges but Archerman's recent financial performance may mean that their new issue is unattractive.
- Bank loan. Costs may depend on interest rates but unlikely to get a loan for the entire amount. Some financial institutions may be unwilling to lend large sums to an unprofitable organisation and may have some reservations about the company not putting up some of the finance.
- Debentures offer the advantage of fixed interest rates and may prove attractive at a time when interest rates are low.
- Venture capital providers may be interested, but would only offer part of the large sum required. They may require some degree of control over the new factory.
- Mortgage
- Government grants
- The most likely outcome would be to use a number of external sources to raise a sum this large.

(e) To what extent is it vital for the Swansea factory to earn profits in the short-run in these circumstances? (9 marks)

	Content 2 marks	Application & Analysis 4 marks	Evaluation 3 marks
Level 2	2 marks Candidate shows good understanding of relevant factors	4-3 marks Good analysis of argument in context	3 marks Sound judgement shown in answers and/or conclusion
Level 1	1 mark Candidate shows limited understanding of relevant factor/offers definition of profit	2-1 marks Limited analysis of argument/application to scenario	2-1 marks Some judgement shown in response
Level 0	0 marks No relevant content present	0 marks No analysis present	0 marks No evaluation present

Relevant answers might include the following:

- Profits in the short-run may be essential to pay interest on loans or to offer dividends on the new share issues.
- Creditors may lose confidence in the new factory if profits are not generated.
- Archerman is earning low profits elsewhere and profits from this venture could help to boost the company's financial performance.
- Archerman is a large public company and the sums involved here are relatively small. It is likely that the company could afford to wait some time for the business to become profitable.
- The factory will take time to build up output and sales meaning that it will be some time before profits are earned.
- Cash flow may be more important in the short term, especially if Archerman has to offer substantial trade credit to attract new customers.
- It might be vital to shareholders to earn profits but employees and customers are unlikely to be worried.