

# GCE 2005

## *January Series*



# Mark Scheme

## Business Studies

BU5W

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Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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*Dr Michael Cresswell Director General*

### **GENERAL MARKING GUIDANCE**

*You should remember that your marking standards should reflect the levels of performance of Advanced Level candidates, mainly 18 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates at the end of 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, then no marks should be given.*

#### **The Use of Levels of Response**

*Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.*

*Fundamental to a Levels of Response approach is that there may be more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.*

*Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.*

*Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.*

The skills we seek from candidates are as follows:

1. Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, eg an advantage of factoring.
2. Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
3. Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
4. Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus 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 4 Complex ideas are expressed clearly and fluently. Sentences and paragraphs follow on from one another smoothly and logically. Arguments are consistently relevant and well structured. There are few, if any, errors of grammar, punctuation and spelling. **4 marks**
- 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**

**Total 4 marks**

**1****Total for this question: 40 marks**

You are a journalist for *21<sup>st</sup> Century Management*. Write a report to the Editor of the magazine, analysing the strengths and weaknesses of Bret plc in 2004 compared to 2001. Based on this analysis, recommend a single score, between 0 and 5, assessing the overall effectiveness of the changes that have been made at the company (where 5 is very effective, 3 is satisfactory and 0 is ineffective). Justify the score you have chosen.  
*(2 marks are included for appropriate report format.)* *(40 marks)*

**Knowledge and understanding (Assessment Objective 1)****Max 8 marks**

LEVEL 3	Good explanation/understanding of a range of relevant material, presented appropriately	<b>8 - 6 marks</b>
LEVEL 2	Some explanation/understanding of relevant material, which is presented appropriately	<b>5 - 3 marks</b>
LEVEL 1	Identifies relevant material which is presented appropriately (up to 2 marks for report format)	<b>2 - 1 marks</b>

**Application of Knowledge (Assessment Objective 2)****Max 8 marks**

LEVEL 3	Relevant data applied in detail to context showing critical perspective	<b>8 - 6 marks</b>
LEVEL 2	Relevant data applied in detail to context	<b>5 - 3 marks</b>
LEVEL 1	Relevant data applied to context	<b>2 - 1 marks</b>

**Analysis of Evidence (Assessment Objective 3)****Max 8 marks**

LEVEL 3	Substantial analysis of the data demonstrating insight and depth and identifying key issues	<b>8 - 6 marks</b>
LEVEL 2	Analysis of the data demonstrating insight and depth	<b>5 - 3 marks</b>
LEVEL 1	Limited analysis of the data presented, showing some understanding but neither insight nor depth	<b>2 - 1 marks</b>

**Synthesis (Assessment Objective 4)****Max 5 marks**

- LEVEL 3      The report's structure is well thought through, making it easy to follow the logic, the communication and the recommendations which draw together the most appropriate evidence and arguments **5 marks**
- LEVEL 2      The report's structure is well thought through, making it easy to follow the logic, the communication and the recommendations **4 - 3 marks**
- LEVEL 1      The report has a structure and is built into a connected whole **2 - 1 marks**

**Evaluation (Assessment Objective 5)****Max 11 marks**

- LEVEL 4      Appropriate conclusions justified by the evidence, showing an awareness of the most relevant underlying themes or issues and their potential implications for the business concerned **11 - 9 marks**
- LEVEL 3      Appropriate conclusions which are well supported showing an awareness of the most relevant underlying themes or issues **8 - 6 marks**
- LEVEL 2      Appropriate conclusions which are partially supported by the evidence present **5 - 3 marks**
- LEVEL 1      An attempt at drawing conclusions, but based on hearsay or assertion rather than argument based on the evidence **2 - 1 marks**

**Answers might include:****Strengths:**

- Has increased the proportion of part time and temporary staff: this may mean the firm is now more flexible to demand - can call in staff as and when needed; could be leaner and therefore more efficient involving less waste.
- The span of control has increased - this should make sure managers are busy! And may mean there has been delayering - reducing overhead costs.
- The company has removed what seemed to be excess capacity, and capacity utilisation has increased. This could link with the sale of fixed assets bringing in finance for the firm and reducing unit costs.
- The business has introduced kaizen groups - generating ideas for improvement and hopefully cost saving ideas (although simply introducing kaizen groups does not mean they are effective and actually produce results). May link with the fall in the proportion of rejects.
- The number of suppliers has been significantly reduced, which may mean that the company is working much more closely with those it retains, and building up better relationships; this may contribute to the fall in the percentage of rejects.
- Reduced stock levels: further evidence of a lean approach with all the consequent savings - lower warehousing costs, etc.
- The business is delivering more quickly to retailers - may be one reason it has to hold less in stock and may help to win orders, especially if it is giving longer credit terms (see debtor days).
- The company has been turned from a loss making business to a profit making business; to do so it has increased sales relative to assets (possibly due to asset sales) and the profit per sale.
- Gearing is lower which may have reduced interest payments.
- Company's exports have increased significantly - this could be an important source of growth as the UK market is not growing very fast and looks as if it is maturing. However, this increase in exports could have been due to the fall in the value of the pound and therefore may be vulnerable to future exchange rate changes.
- Success achieved when the size of the UK market in real terms is declining and when the number of main consumers (not necessarily customers) has declined.

**Weaknesses:**

- The Boston Matrix shows the firm has several cash cows but has no stars or question marks. The company may be milking the cows very successfully (as profits etc, seem to have improved) but the concern is the future - where will the business go next?
- Managing more temporary and part-time staff may be more difficult in terms of motivation and administration; they may not have the same long-term commitment to the firm.
- The increase in span of control may put more pressure on staff and lead to stress; this may be reflected in the higher labour turnover of full-time staff. This again increases costs and can be disruptive.
- Greater pressure and stress could lie behind the fact that working days have been lost due to a dispute (although we do not know how many employees, length of dispute etc).
- The debtors days have increased, which may adversely affect cash flow (although may have helped generate more sales by offering more credit, and acid test ratio is still fine).
- Depreciation policy has changed to spread costs over more years - this will have contributed to the increased annual profits; may be element of window dressing here.
- Has reduced the number of non-executives to 0; slightly odd at a time when most companies are increasing their number. Hint that they do not want external eyes on what they are doing? May lose valuable experience from non-executives (although admittedly it did not seem to help before); would they have been better changing them rather than getting rid of them altogether?
- Future of market: sales appear to be slowing up (maturity phase); admittedly a huge market and plenty of room for a small business such as this to grow, but still UK conditions not very favourable, eg greater number of overweight people may raise health concerns and lead to a movement against sugar products.

- New products are being launched in the market by other firms, but Bret does not seem to have any, and reduction in its R&D spending as a percentage of turnover suggests a short-termist approach.

**May Include:**

There are some suggestions of window dressing the accounts by increasing the number of years of depreciation. Also, there have been fairly significant asset sales that may have led to one-off gains. Sales in the UK have outperformed the market, but not by much and do not match inflation. Export sales may rely on the lower value of the currency. The company does seem to have made several movements towards lean production, but is it doing enough on the revenue front?

The worry is where the firm goes from here - it is operating at very close to full capacity and has no products that are launched and ready to be the stars of the future. Potentially the managers have adopted a slightly short-run approach (cost cutting and asset sales) that has worked over a 4-year period, but may not have prepared the business for the next ten years. The UK market itself has potential in that it is huge, but it appears to be a mature market. There is no evidence the managers have planned where to take the business next. Export sales may hold the key if there is the demand there and the capacity can be increased.



**2****Total for this question: 40 marks**

In the summer of 2003, some of the staff of British Airways went on strike. Discuss the possible impact of an industrial dispute on an airline such as British Airways. *(40 marks)*

**Possible points to consider include:**

- Customer dissatisfaction; immediate impact on sales and possible long-term damage to bookings
- Loss of earnings; consider the impact on profits and shareholder reaction
- Impact on long term employer-ee relations; this strike may make change more difficult in future
- Loss of sales to other airlines who may try to make the most out of this in terms of offering incentives, etc for people to travel with them

**Depends on:**

- How many staff went on strike and what jobs they did exactly - what was the actual impact on travel arrangements?
- How easy is it to replace staff; eg is it possible to transfer people from elsewhere in the business?
- The duration of the strike - this will affect the extent of the damage
- The extent to which the airline offers a unique service, eg how easy for customers to switch to competitors or does BA dominate certain routes?
- The impact may be higher at certain times of year than others, eg the summer is likely to be the worst time
- On how it is resolved - are both sides content with the solution or is there underlying bitterness still?

**3****Total for this question: 40 marks**

Discuss whether it is desirable for a leading UK supermarket chain to take over one of its rivals.

*(40 marks)*

**Possible answers might include:**

- May lead to economies of scale, eg bulk buying and greater power over suppliers - may enable better quality goods, more regular deliveries and lower prices which are desirable for the customer
- May enable marketing costs to be shared, reducing cost per unit and enabling higher profit margins or lower prices
- The above two factors may boost profits; this may allow higher dividends for shareholders or more funds for investment to provide a better service for customers
- The two firms may share expertise and strengths in different areas; may lead to synergy
- May reduce customer choice
- May lead to closures and job losses

**May depend on:**

- Which stakeholder group is being considered, eg employees
- Which supermarkets, eg some may have a presence in the South and some in the North, and so there is no overlap of the service provided in any one area
- The policies adopted by the firm after the takeover, eg regarding store closure
- The conditions imposed on the deal by Competition Commission
- The price paid for the deal
- The extent of the cultural fit between the two organisations

4

**Total for this question: 40 marks**

When the company Hutchinson Whampoa, an international conglomerate, launched its new 3G technology mobile phones, it set a sales target of 1m customers in the UK in the first year. Its actual sales in the UK were significantly less than this. Discuss the possible implications for a firm such as Hutchinson Whampoa of failing to hit its sales targets for a new product. *(40 marks)*

**Possible answers might include:**

- May mean less profit than expected - this may delay plans for further promotion and investment. It may affect dividends and share price as investors lose confidence
- May lead to under utilisation of capacity and higher unit costs than predicted
- May lead to closure of parts of the business and/or rationalisation strategies
- May mean the company has to engage in greater marketing activities to sell the idea (but can it afford it?)
- May mean some people are held accountable, eg those who made forecast or those who failed to hit it!
- May make the firm vulnerable, eg to take over bid

**Depends on:**

- Was the target just set to inspire and encourage others to buy and to gain PR coverage or was it believed to be real?
- Was the failure to hit targets for a reason that is understood, eg delayed launch?
- What is the financial situation of the business - can it sustain such losses?
- What is the long-term sales forecast looking like?
- To what extent is the firm dependent on UK sales alone - what were figures like elsewhere?
- This is quite a significant shortfall and so the impact may be significant
- What was happening to other providers of these phones - is it a problem with the new technology or with Hutchinson Whampoa's products and/or marketing?

5

**Total for this question: 40 marks**

In 2003, the value of the shares of the biggest 100 companies in the UK fell by 24% whilst their directors' pay increased by 23%. During the same period, average company profits in the UK rose by 3%. Discuss the possible implications of this data for UK businesses.

*(40 marks)***Possible answers might include:**

- Share prices have fallen significantly – this may mean that investors have lost money and will be wary of investing again. This may make it harder for such firms to raise finance via share issues. The fall in share prices may make companies vulnerable to foreign take over (eg Wal Mart Asda) as they may be undervalued
- Directors are clearly getting pay increases greater than the increase of profits – is this reasonable? Appropriate? What will reaction of investors and even other employees be? It may lead to more demands to control directors pay, eg from investor pressure groups (although pay may be linked to previous profits or other indicators of performance). What would be happening to profits if directors' pay had not been increased?
- Interesting that share prices are falling and yet director's pay is going up – may attract adverse media coverage; this may affect consumers and potential employees; may lead to demands that pay is linked much more to current performance and share price

**Depends on:**

- Depends on relative share value – what had it been before?
- UK director's pay v. non UK
- What is happening outside of top 100 companies
- How long is the fall for – eg was it one day caused by particular news
- Data is past – may be more interesting to look at what is happening now and what is expected to happen in the future
- Was this widely known?
- Averages – really need to look within the figures, eg a sectoral analysis
- Absolute figures: 3% of what? 23% of what?
- Pay and profit figures in other countries

## Essay Marking Grid

Use this marking grid, and the guidance underneath it, when assessing each essay.

	<b>Content 8 marks</b>	<b>Application 8 marks</b>	<b>Analysis 8 marks</b>	<b>Evaluation 16 marks</b>
<b>Level 4</b>				<b>16 - 13 marks</b> Mature judgement shown in arguments and conclusions
<b>Level 3</b>	<b>8 - 6 marks</b> Good explanation/ understanding of relevant factors	<b>8 - 6 marks</b> Full application to context	<b>8 - 6 marks</b> Full analysis of the question using theory appropriately and accurately	<b>12 - 9 marks</b> Judgement shown in arguments and/or conclusions
<b>Level 2</b>	<b>5 - 3 marks</b> Some explanation/ understanding of relevant factors	<b>5 - 3 marks</b> Application to context	<b>5 - 3 marks</b> Analysis of the question with some use of relevant theory	<b>8 - 5 marks</b> Limited judgement shown in text or conclusions
<b>Level 1</b>	<b>2 - 1 marks</b> Relevant factors identified	<b>2 - 1 marks</b> Limited application to context	<b>2 - 1 marks</b> Limited analysis of the question	<b>4 – 1 marks</b> An attempt at drawing conclusions but based on hearsay or assertion rather than argument based on the evidence

The following points give a detailed list of some of the qualities which could be rewarded:

### **Analysis (breaking down)**

- Identification of cause, effect and interrelationships
- The appropriate use of theory or business cases/practice to investigate the question set
- Breaking the material down to show underlying causes or problems
- Use of appropriate techniques to analyse data

### **Evaluation (bringing together)**

- Building the points/themes within the answer into a connected whole
- Logical sequencing of argument
- Clarity through summarising an argument

### **Judgement**

- Judgement shown in weighing up the relative importance of different points or sides of an argument, in order to reach a conclusion
- Informed comment on the reliability of evidence
- Distinguishing between fact and opinion
- Judgement of the wider issues and implications
- Conclusions drawn from the evidence presented
- Well-judged use of English
- Selectivity - ensuring material is all relevant to the question