



**General Certificate of Education**

**Business Studies 6131**

**BU5W Business Report and Essay**

**Mark Scheme**

*2008 examination - June series*

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.

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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.  | <b>4 marks</b> |
| 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.  | <b>3 marks</b> |
| 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. | <b>2 marks</b> |
| 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.  | <b>1 mark</b>  |

**Total 4 marks**

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

Henry Seeton has asked you, an independent management consultant, to write a report to the Board of Directors using appendices A to E on pages 4 to 5, analysing the main arguments for and against the relocation. Based on this analysis, produce a fully justified recommendation on whether to switch shirt production to China.

*(2 marks are included for appropriate report format)*

**Relevant answers might include the following:**

**For the move:**

- able to make much higher profits in China for any given level of output; lower fixed costs and lower variable costs, eg at present output making around £2.5m; in China would make £8m. The breakeven level of output is lower which may mean lower risk. There is a bigger capacity in China so much more profit is possible and this might be part of further growth for the firm. Maximum profit at Cellton with existing facilities is £5m – this can be significantly exceeded in China
- the NPV just for first five years is positive and relatively large – again suggesting that on financial grounds this move is appealing. Given increasing pressure from investors for higher returns, the financial arguments in favour of the investment mean the move might make sense
- main investors not UK based so may not be as concerned as UK investors might be in terms of impact on local community in North of England, eg may have greater loyalties to other countries
- share price has fallen in the last year and this could explain the pressure on Henry; desire to boost profits and restore share price?
- the increase in profits last year is not as rapid as the increase in overall sales. May be some pressure to improve profitability and this could help do it
- profit generated from shirts seems low relative to turnover (Appendix D)
- creates jobs and investment in what looks like a more deprived area in China than Cellton (high unemployment and low incomes); these social benefits might offset the UK suffering especially when the company is offering high pay relative to national average – should the company view these issues on a global basis, ie it is still being socially responsible when you take an international overview.

**Against the move:**

- redundancies and the impact on the local area; local unemployment is relatively high already and the firm is a major employer (350 jobs in a town of 7000 people) so could be relatively significant issues for the area – to what extent should Henry be concerned about these? How easy will it be for the employees to find work? The mission statement refers to responsibilities to all stakeholders so employees and the community should matter. Closure would be adding to unemployment – socially irresponsible?
- employees have improved productivity significantly over past five years; more output per worker and yet rewarded with closure – may seem unfair, especially in the context of £100m profits, big proposed bonuses and high rewards to directors. Increased productivity shows improvements can be made – possibly due to cooperation of employees; is there more potential for improvement if this factory is kept open? Should the rewards of the business be shared more equally between those who have contributed to it?
- the company as a whole is making a profit of £100m. Could this be regarded as a fair return already given capital employed of £500m? Is it important to increase profits further? At what cost in terms of eg UK reputation? Impact on “Britishness” of the brand?
- Henry has claimed (publicly) previous success has been based on working with employees so does it make sense to upset them? What would be the impact, eg on the rest of the business? Eg other factories? On his coverage in the media?
- how strong will the union reaction be? Well represented within the factory
- quality looks better in UK relative to China (measured by returned shirts); will a decline in quality hit the brand badly? Similarly is the longer lead time an issue?

**Consider:**

- pressure for financial returns – how intense is this?
- is there likely to be any impact on the “British” brand image? And if so how big?
- the mission statement says that it wants to treat all its stakeholders with equal respect but is this really possible?
- on financial grounds the move must make sense given the relatively poor performance of the shirt division and the pressure for improvement; can gain significant financial benefits by moving. May consider how it is handled: the proposed date is unrealistic and does not leave enough time for consultation. Will want to maintain the brand image so probably go ahead but do much more to win friends in the UK. Will also need to sort out quality issues and lead time
- The pound is forecast to fall against the Chinese currency so eg the company may want to invest to relocate *now* whilst the pound is strong rather than wait
- the company already produces a fairly high proportion of products overseas so this, in itself, is not an unusual move. It still promotes its “Britishness” so presumably could continue to do this although this would mean more than 50% produced abroad
- ultimately, given pressure for returns it may happen but may consider the way it is done.

**Opportunities for understanding** include labour turnover, labour productivity, lead time, net present value, change in the value of the pound, net profit, capital employed, trade unions, mission statement, break even, capacity.

**Opportunities for application include:**

- redundancies in the context of the mission statement, the brand and a stated belief that “our people are our greatest asset”, the 11% unemployment in Cellton, the high trade union membership, bonus to directors
- locating in China in the context of a “British” image
- lower costs in China in the context of pressure from investors to improve returns and falling share price
- issues of defects in the context of a premium brand.

**Opportunities for weighing up/recommendations include:**

- the impact on the brand image of the move (in the context of successful efforts in the past to build a premium image)
- the importance of the concerns such as lead time and rejected shirts - is too much of a risk?
- how great is the pressure for profits?
- importance of UK issues (such as jobs) v non-UK, ie what perspective is taken?
- how realistic is the proposed date of the directors? Could discuss timings and method adopted if closure is to go ahead.

**Business report**

<b>Skill</b>	<b>Marks</b>	<b>Description</b>
<b>Content</b>		
Level 3	8–6	Good understanding/explanation of relevant factors, eg range of factors understood and/or depth of understanding
Level 2	5–3	Reasonable understanding/explanation of relevant factor(s)
Level 1	2–1	Limited understanding, eg descriptive or basic/imprecise understanding of relevant factor(s)
Level 0	0	No understanding demonstrated
<b>Application</b>		
Level 3	8–6	Well related to context
Level 2	5–3	Reasonably related to context
Level 1	2–1	Limited relation to context
Level 0	0	No application
<b>Analysis</b>		
Level 3	8–6	Good analysis, eg relevant factor(s) well developed
Level 2	5–3	Reasonable analysis of relevant factor(s)
Level 1	2–1	Limited analysis of relevant factor(s)
Level 0	0	No analysis
<b>Synthesis</b>		
Level 3	5–4	Well structured report
Level 2	3	Reasonable structure
Level 1	2–1	Poor structure
Level 0	0	No structure
<b>Evaluation/judgement/recommendations</b>		
Level 3	11–8	Good recommendation/evaluation/judgement
Level 2	7–3	Reasonable recommendations/evaluation/judgement
Level 1	2–1	Limited recommendations/evaluation/judgement
Level 0	0	No evaluation/recommendations

2

**Total for this question: 40 marks**

Ford is a global automobile producer whose brands include Ford, Mazda and Volvo. Ford's recent losses have been blamed on its organisational culture which has been described as too conservative, too centralised and too inward looking. To what extent is the future financial success of Ford likely to be dependent on it changing its culture? *(40 marks)*

**Relevant answers might include the following:**

**Problems of the existing culture at Ford may be:**

- conservative: not willing to take risks, eg to enter new market segments or develop new products; may be a lack of R&D and a lack of innovation
- centralised: may be too slow to make decisions because of overload on the senior staff; may lack a sense of what is happening in specific markets as decision makers are too distant from the customers
- inward looking: not aware of market trends or competitors' actions
- diseconomies of scale.

Changing the culture could rectify these issues.

**Changing the culture may lead to the company:**

- becoming more outward looking
- being more customer focused
- being decentralised and able to react to customer needs in different markets more effectively
- quicker decision making
- greater willingness to change and to make radical changes. It may lead to a more democratic approach leading to greater motivation, greater input into decisions etc.

**But:**

- financial success is unlikely to be just about cultural change. Depends also on the external environment, competitors' actions, investment etc.

**Overall:**

- may be difficult to actually change culture especially in a business this size, operating in many markets with many brands and employees
- may take a long time so how long in the future are we looking?
- depends on the underlying causes of the poor financial performance
- likely to have an impact but is it enough?

**Opportunities for application** include the global nature of the business, the fact that the business has different brands/divisions, the automobile industry and the present conditions of this industry, the types of culture referred to, the losses of Ford, economic conditions, environmental issues.

**Opportunities for evaluation/judgement include:**

- may discuss the balance in terms of importance between cultural factors and other factors; whether some cultural factors may be more important than others; whether these cultural issues are the same throughout Ford
- the difficulties there may be in changing culture for a business such as, ie success may be dependent but may not actually happen or be slow to happen.



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

In 2007, Marks and Spencer plc, a leading UK clothes, food and home products retailer, launched a five-year strategy to, “tackle some of the biggest challenges facing our business and our world”. This strategy involves working with customers and suppliers, “to combat climate change, reduce waste...trade ethically and build a healthier nation”. To what extent do other retailers need to follow Marks and Spencer plc’s strategy? (40 marks)

**Relevant answers might include the following:**

- may lose competitive advantage if they do not; ie may be seen to be less environmentally aware which could hit their sales
- is there much mileage in being the follower rather than the leader?
- benefits of being socially responsible
- clear potential benefits, eg cost savings, attracting customers, employees and investors
- can they afford to, eg many changes will need to be made; these could be difficult and expensive to bring about
- will they want to? Eg may want to position themselves differently
- may be the ‘right thing to do’
- may have different values and priorities
- may want to wait to see customers’ reaction and whether it looks like it is going to be successful
- may take some elements of the plan but not others
- some may be ahead of Marks and Spencer already
- may not ‘need’ to but may just ‘want’ to.

**Opportunities for application include:**

- highlighting how Marks and Spencer is using this approach in practice
- relating to Marks and Spencer, its positioning, its customer base
- relating to other retailers’ positioning and approach (eg low cost approach)
- relating to present economic environment, eg willingness to pay more for products.

**Opportunities for evaluation include:**

- could question the ‘need’ to follow; they may ‘want to’ follow because they believe in the importance of some aspects of the Marks and Spencer approach even if they do not ‘need’ to
- may be very dangerous to follow another firm’s strategy given your resources and the particular environment you face are different
- may be elements they want to follow but not all of the strategy
- will vary from retailer to retailer; what are their values? What is their strategy? Eg Primark
- do they have a choice? Eg legislation and pressure groups.

4

**Total for this question: 40 marks**

In recent years, low cost airlines such as Ryanair and EasyJet have grown rapidly. To what extent does the success of such airlines depend mainly on factors outside of their control?

(40 marks)

**Relevant answers might include the following:**

**This industry very dependent on external factors such as:**

- exchange rates – affecting the desire and ability to go abroad
- taxation on fuel and airport tax
- legislation: ability to take off and land in particular locations
- actions of competitors, eg BA
- oil prices
- social trends, eg attitudes to environmental issues.

**However, much is under their control:**

- eg their original strategy to target the low costs was their choice; could look to reposition
- all firms have to combine internal strengths and weaknesses with the opportunities and threats. Are these firms any different?
- could argue they managed to have the right idea at a time when more people were interested in travelling abroad but even so the strategy came from them and had to be implemented effectively
- success likely to be about match between internal factors and external environment. This will depend on their ability to anticipate future change and manage internal resources effectively.

**Opportunities for application** include: oil prices, credit crunch, social trends (eg attitudes to leisure and holidays).

Consider whether the response relates specifically to low cost airlines.

Look for evidence of awareness of what is actually happening in the economy which may be used for application and in judgement.

**Opportunities for evaluation include:**

- may consider the balance between external and internal factors
- may consider the extent to which the success of low cost airlines depends on factors outside of their control compared to any other business or industry
- could question the impact of external factors on aspects of success, eg sales v profits
- could question the meaning of success.

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

Apple is a producer of innovative consumer electronic products such as personal computers and MP3 players. The company entered the mobile phones market in 2007. Some analysts have suggested that Apple should now enter the computer games console market. This fast growing global market is dominated by Sony, Nintendo and Microsoft. Should Apple make it a priority to enter the computer games console market? Justify your answer. (40 marks)

**Relevant answers might include the following:**

- this is clearly a large market and so the rewards may be significant. Attractive because of the fast growth and opportunities this creates
- would build on many of the strengths of Apple, eg ability to innovate may enable it to develop a USP in this market. Would have access to distributors and would have some of the technical skills required
- has skills in design and new product development and entering new markets, eg promotion.

**However, would need to consider:**

- investment required and perceived risk
- likely reaction of the existing firms – they are relatively strong
- priorities; may be one of many options – does not necessarily make it the best
- may stretch resources, eg danger of overtrading
- may depend on its success in other markets, eg in mobile phone market to fund investment.

**Opportunities for application include:**

- the launch of the iPhone was accompanied by great publicity and press coverage; however, price cuts since the launch have led to some questioning its success.
- strong design and brand image which may transfer into this new market
- reference to the games as well as the consoles.

**Opportunities for evaluation include:**

- may consider whether Apple would want to take a risk given its present situation
- may consider what factors would make it more or less likely to make this strategy a priority
- may depend on how Apple enter the market (eg prior investment in R&D)
- may discuss likelihood of Apple's success compared to other businesses if they were to enter the market
- timing; is this the right time for Apple in terms of its own development and/or the market as a whole?
- extent to which the brand will stretch into this market.

**Essay**

<b>Skill</b>	<b>Marks</b>	<b>Description</b>
<b>Content</b>		
Level 3	8–6	Good understanding/explanation of relevant terms/factors (range and/or depth)
Level 2	5–3	Reasonable understanding/explanation of relevant terms/factor(s)
Level 1	2–1	Limited understanding, eg descriptive or very basic/imprecise understanding of relevant terms/factor(s)
Level 0	0	No understanding
<b>Application</b>		
Level 3	8–6	Well related to context
Level 2	5–3	Reasonably related to context
Level 1	2–1	Limited relation to context
Level 0	0	No application
<b>Analysis</b>		
Level 3	8–6	Good analysis, eg relevant factor(s) well developed
Level 2	5–3	Reasonable analysis of relevant factor(s)
Level 1	2–1	Limited analysis of relevant factor(s)
Level 0	0	No analysis
<b>Evaluation/judgement</b>		
Level 3	16–12	Good judgement/evaluation
Level 2	11–6	Reasonable judgement/evaluation
Level 1	5–1	Limited judgement/evaluation
Level 0	0	No judgement/evaluation