

Teacher Resource Bank

GCE Business Studies

Exemplar Response and Commentary

BUSS3 January 2010



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GCE Business Studies

Exemplar Response and Commentary to BUSS3 January 2010 Question Paper

Please note that the candidate's response has been typed exactly as it was written.

| Candidate A Question One | |
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| AOs | Candidate Response |
| Content | A 'soft' human resource management strategy consists of treating staff well, and they are important 'assets' to the success of the business. |
| Application Analysis | One possible benefit of having a 'soft' HRM approach is that labour retention is higher than than using a 'hard approach'. We can see that this is the case for Out and About Plc because there is 13% decrease in labour turnover, compared to the industry average. If staff do not leave, this creates stability, team work and lower costs, as less will have to be spent on training and also recruitment and selection. |
| Application Analysis | A second benefit of adopting a 'soft' HRM approach is that it creates motivation for the employees. Maslow argues that we all have 'self actualisation needs', which Out and About implement, by having 'employee groups who consult on major business decisions'. This creates job enrichment which will boost motivation, and as a consequence, improve efficiency, a firms competitiveness and customer service. This will all contribute to an overall success of a firms corporate objectives. |
| | Commentary |
| | <p>The candidate starts well by providing a correct definition of soft HRM and is awarded full marks for content.</p> <p>In the next paragraph the benefit of higher labour retention is identified and an application mark is awarded for the reference to the 13% decrease in labour turnover compared to the industry average. Level 2 marks for analysis are also awarded as there is a reasonable line of argument explaining the benefits of low labour turnover.</p> <p>In the final paragraph. the benefit of improved motivation is identified. Level 1 application marks are awarded for the reference to the fact that employee groups are consulted on major decisions. This is followed by an impressive chain of argument that analyses the benefits resulting from improved motivation, which gains full marks for analysis.</p> |

| Question Two | |
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| AOs | Candidate Response |
| Content | A marketing plan is a written document, which contains current and future plans, and the strategies involved in their success. They normally contain a scientific approach which leads to a detailed guide to implement objectives. |
| Content Application Evaluation | I believe that the most important factor influencing Lisa's plan, is the current success of Out and About Plc and the potential success which could be available to them if they adopted a market development strategy. Firstly 'market share and profits have declined', which suggests some sort of innovation is necessary for the future success of Out and About. Although they enjoy 'purchasing economies of scale' (the ability to order more for less through bulk buying) they have suffered new competition from 'major firms' which has caused lower profits and less market share. I believe this to be a major factor influencing Lisa's plan to revitalise Out and About Plc, as they cannot match the giant retailers of Argos and JJB. |
| Application Analysis | <p>A second influence on Lisa's plan is the potential which 'the extreme sports market' would give them. As the market is 'one of the fastest growing' this would be perfect for Out and About, as they are being outnumbered in their current market. Data suggests that the market will grow by £150 million pounds in the next 6 years and Lisa's objective of 25% market share would mean that they would make £275 million, compared to £295 million in 2009, which is likely to decrease in following years, due to the lack in ability to be able to compete. However forward financial data is only an estimate, so we cannot be sure of its reliability.</p> <p>Finally, 'effective stock management' is crucial element of Lisa's marketing plan. The concept of supply and demand and lean production are essential for minimising costs stacked up in stock. Thus creating a method of just in time production would lead to fewer costs, higher quality and increased profits. These elements would help secure the potential success of Lisa's plan and would make Out and About more competitive against its rivals.</p> |
| | Commentary |
| | <p>The candidate begins by providing a definition of a marketing plan which reveals some understanding of the term. It is awarded one mark for content.</p> <p>A second content mark is then awarded for the current success of 'Out and About' as a relevant influence on the marketing plan. Level 1 application and evaluation marks are also gained for the reference to declining market share and profits, combined with the recognition that innovation is necessary for future success. The final content mark is then awarded for the identification of competition as another relevant influence. Level 1 application and analysis marks are also gained for the explanation that the business cannot compete with competitors such as Argos and JJB.</p> <p>The strongest element of the candidate's answer appears in the next paragraph where effective use of the marketing data is used to calculate the revenue that would result if the objective of a 25% market share is achieved. Full marks for application and Level 2 analysis marks are awarded.</p> <p>The final paragraph, referring to effective stock management, is not relevant to the question and consequently no marks are awarded.</p> |

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| | The candidate, unfortunately, shows poor exam technique by failing to provide an overall conclusion justifying which influence would be the most important on the marketing plan. |
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| Question Three | |
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| AOs | Candidate Response |
| Content | Out and About Plc require £14 million in order to implement Lisa's marketing budget. This could be generated from within the business, by selling assets, creating more shares or by reinvestment from retained profits. Out and Abouts current liquidity can be calculated by calculating its working capital. |
| Application | <p>Working capital = current assets – current liabilities = £140m – £160m = (£20m)</p> <p>This suggests that this would not be an option. An alternative method of raising finance is by loans. Thus, we can calculate Out and Abouts current gearing level.</p> |
| Content Application Analysis | <p>Gearing = $\frac{\text{non current liabilities}}{\text{Total equity + non current liabilities}} \times 100$</p> <p>= $\frac{\underline{\pounds 280m}}{\pounds 500m + \pounds 280m} \times 100$</p> <p>= 35.89 = 35.9%</p> <p>We can conclude that Out and About are relatively lowly geared so they have the ability to borrow more money.</p> <p>We can use the asset turnover to see how well Out and About are turning their stock into cash.</p> <p>Asset turnover = $\frac{\text{revenue}}{\text{net assets}} \times 365$</p> <p>= $\frac{\underline{\pounds 295m}}{\pounds 500m} \times 365$</p> <p>= 215 days</p> <p>This suggests that lots of cash is being piled up in stock, as they sell out in 215 days. This could be the major cause of why Out and About have terrible liquidity.</p> |
| Analysis Evaluation | To conclude, Out and About should use its fixed assets to raise the £14m capital. They should do this because they have £800m in fixed assets and they are planning on closing '50 underperforming' shops. This may cancel out the £14m raise required. Although the firm could borrow, as their gearing is relatively low, this appears to be a bad idea as liquidity is low, which means that Out and About do not have enough cash for day to day transactions, caused by having too much cash piled up in stock. Another reason why they |

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| | should use their fixed assets is because the bank may not loan to them, due to their poor liquidity. |
| | Commentary for Question 3 |
| | <p>In the second sentence the candidate reveals good understanding of sources of finance by identifying selling assets and shares. Level 2 content marks are awarded.</p> <p>Full content and Level 1 application marks are gained by the calculation of working capital. In addition, the correct calculation of gearing results in content plus Level 2 application marks. There is limited analysis of the gearing figure.</p> <p>No marks are awarded for the incorrect asset turnover calculation.</p> <p>In the final paragraph, the candidate writes an effective conclusion by recommending the sale of fixed assets as the most appropriate source of finance. This conclusion reveals very good use of context by reference to the £800m value of the fixed assets. Level 2 analytical marks are also awarded for the perceptive recognition of the potential liquidity problems facing the business and the difficulty this may create in obtaining a loan.</p> |

| Question Four | |
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| AOs | Candidate Response |
| Content Application | <p>Arguments for Out About Plcs new plan:</p> <p>The main reason why Out and About PLC should adopt Lisa's plan is due to the current success of the firm. The firms current market share and profits have reduced by 15%, due to the increased competition by JJB and Argos. The new plan to target the 'extreme sports' market would be beneficial to Out and About because the market is growing rapidly, which is complete opposite to their current position. Also, they could have a oligopolistic share of the market, which could mean increased profits, due to economies of scale and the reduction of costs. Whereas Out and About are losing 15% market share, the extreme sports market is growing by 15.7% in the next few years, and Out and About could enjoy a turn around of success.</p> |
| Content Application Analysis | <p>A second reason why Out and About should adopt Lisa's plan is because it would provide them with a new brand image. Currently, only 5% of under 21s and 15% of 21–30 are aware of Out and About. However, even less shop here and the reputation of traditional merchandise puts off younger shoppers. Out and Abouts market research has given them a specific market segment to target, and these individuals are participating in extreme sports. Also, the amount that these customers are willing to spend is increasing, which could create higher revenues. Out and Abouts current products are not what these customers want, and this strategy could let Out and About target a new segment, who are often described as having the most disposable income in Britain. Thus, it would be good to implement the plan.</p> <p>Finally, the new plan could let Out and About renegotiate its current credit terms with its suppliers. This would result in increased liquidity and better cash flow. Less suppliers could create advantage, as Out and About could build partnership approaches, gaining a supply advantage. Thus, it would be good to adopt the new plan.</p> |
| Content Application Analysis | <p>Arguments against:</p> <p>A 'Hard' HRM approach consists of using employees as workers, rather than as assets, who contribute to the success. A 'flexible' workforce will cause less costs, but will make staff apprehensive about the security of their job. If they feel this, absenteeism, labour turnover may increase, costing Out and About more in recruitment costs, which may cause cash flows in the all ready financially worrying situation (low liquidity and lots of cash in stock). Thus, the new plan could be negative.</p> |
| Content Application Analysis | <p>Secondly, 'redundancies will be inevitable' and this 'will affect staff morale and the possibility of industrial action'. Lisa hopes to create a new brand image, but these problems could give Out and About a bad name and a bad company to work for, due to its autocratic leadership. Staff are conservative in nature and do not like change and the plan could make recruitment in the future increasingly difficult and expensive.</p> |
| Evaluation | <p>Finally, conflicting styles may cause internal problems at Out and About. Lisa has planned without consulting Mike. Thus would cause tensions and almost betrayal.</p> <p>Recommendation:</p> <p>Out and About should not implement the plan, as it would radically cause</p> |

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| | <p>problems internally. It would cause higher costs, through redundancies and increased marketing. Staff are currently very committed and they have caused success, due to their consultations on major decisions. However, Out and About should renegotiate their trade credits to cause</p> |
| | <p>Commentary for Question 4</p> |
| | <p>In the first paragraph, the candidate gains Level 2 content and Level 1 application marks for showing understanding of the growth of the extreme sports market as opposed to Out and About's current market.</p> <p>Further content, application and analysis marks are gained in the next two paragraphs as the candidate shows understanding of the benefits of targeting a new market plus dealing with fewer suppliers. However, the candidate fails to develop a line of argument for either of these points.</p> <p>In the 'arguments against' section Level 3 marks are now awarded for content after the candidate shows good understanding of hard HRM. By this stage, good understanding of a range of arguments has been shown. Also this paragraph scores Level 2 marks for both application and analysis, due to the candidate developing a strong line of argument analysing the problems that may result from a hard HRM approach, which also makes reasonable use of context by referring to the liquidity problems facing the business.</p> <p>In the final 'recommendations' section, the candidate shows reasonable judgement by recommending that the proposal should not be adopted based upon the potential HR issues that could result.</p> <p>Although application and analysis marks were not given in this instance, it is possible to gain these marks in the 'recommendations' section. It is also possible to gain evaluation throughout an answer.</p> |

Grade Achieved: A

GCE Business Studies

Exemplar Response and Commentary to BUSS3 January 2010 Question Paper

Please note that the candidate's response has been typed exactly as it was written.

| Candidate B Question One | |
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| AOs | Candidate Response |
| Content | A 'soft' approach is the term used when a business have the notion that their staff are the most valuable asset in the company. The staff are valued and their needs are taken care of as they are essential to the business success. |
| Analysis | A soft approach can lead to high motivation among the employees. This would benefit the bussiness. If the employees are motivated they would become more efficient, productive and use all of their potential to make the business successful. If the employees become more efficient then resources would be less wasted and employees would try to minimise the costs of production which would save the company a lot of money. By the employees being productive the business would also save more money. The motivated employees would increase their production, which can lead to a high capacity utilisation and less wasted resources. Motivated employees would have job satisfaction which would make the staff use their full potential at work to make the business more successful or improve the business. |
| Analysis | Another benefit of using a soft approach can be that it can create good employer / employee relations. This would benefit the business greatly as there would not be disputes or industrial action which can have a great impact on the business such as disrupting productivity or ruining the companies reputation and brand. Disputes can be costly for the company as customers can be lost, which would lead to a fall in demand, and this would affect the profitability of the business. Having good employer / employee relation would make the business more succesfull as the workers would work to improve the business without objections. |
| | Commentary |
| | <p>In the first paragraph the candidate reveals good understanding of soft HRM and is awarded full marks for content.</p> <p>In the following paragraph the candidate identifies and develops a reasonable line of argument that analyses the benefits resulting from a motivated workforce. Level 2 analysis marks are awarded.</p> <p>In the final paragraph the benefit of good employer-employee relations is identified. The candidate then develops a good line of argument that shows effective analysis of the benefits resulting from good employer-employee relations. Full marks for analysis are awarded. Unfortunately, the candidate fails to use examples from the case study and consequently no marks can be awarded for application.</p> |

| Question Two | |
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| AOs | Candidate Response |
| Content | A marketing plan is a detailed description of the required activities to meet the marketing objective. |
| Content, Application | <p>The most important influenc in Lisa’s marketing plan would be to open 25 new out of town stores. This is because Mike, the majority shareholder of out and about plc wants to improve the profitability of the company. He mentioned that his investments in out and about plc has been extending and diversifying. The opening of the 25 out of town shops would make his investments even more extended & diversifying.</p> <p>The opening of the new shops could be the revolution that out & about needs. The shops out of town would have a different layout from the current high street stores. This could be used as a means of test marketing. The company can see and analyse how customers react to the shops out of town, and if it succesfull they could apply the changes to the high street stores. The selling of high quality, fashionable, innovative clothing in the new stores would change totaly the out & about business from the stores in the high street. This can be a new way of generating & improving the profits of out & about and this would be influential for Mike as it is his aims.</p> |
| QWC/Evaluation | Making the new stores operate as a profit centre would also improve the business. It would not only save costs but it would make it more profitable. In a profit centre the business are responsible for their own profit making and the business is managed by itself. The profit centre only follows the corporate objective but it has to find its own ways to be profitable. This beneficial as the corporate would not have to be providing different stores, different sets of budgets, or different directions which can be very confusing and hard to manage. It would make it easier for the company. Having 25 new stores which is set out different from the original stores could make the company more succesful, and change the ways its operating to a more profitable way. |
| | Commentary |
| | <p>In the first sentence the candidate provides a correct definition of a marketing plan and is awarded Level 2 content marks.</p> <p>In the next paragraph, the influence of ‘Mike’, the majority shareholder, is identified and there is an attempt to use relevant material from the case study in terms of the objectives he has set for the business. Full content marks can be awarded at this stage plus Level 1 application. However, no analysis marks can be awarded as the candidate fails to explain why ‘ Mike’ could be a significant influence on the marketing plan.</p> <p>Unfortunately, in the final two paragraphs, the candidate loses focus on the question set. This is due to the fact that the answer discusses elements of the proposed strategy, such as the new stores and the operation of profit centres, rather than the influences on the marketing plan. Consequently, no marks can be awarded. There is also no attempt to evaluate meaning that only one mark can be awarded for the quality of written communication.</p> |

| Question Three | |
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| AOs | Candidate Response |
| Content Application Analysis | At the moment out & about its 35% geared, which shows that it is not too highly geared but this would increase if the company decides to borrow money to have enough funds for |
| | Commentary |
| | <p>The candidate identifies and correctly calculates the gearing ratio, resulting in Level 1 content and application marks. Limited analysis of the calculation is also provided, but there is no attempt to explain the implications of this terms of raising capital.</p> <p>No other sources of finance or ratios are identified and there is no attempt at evaluation.</p> |

| Question Four | |
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| AOs | Candidate Response |
| | Findings A |
| Content Application | The new plan for out and about is a plan that would revolutionise the company, which can be good for the company as the market shares and profits have declined by 15%. Opening 25 new stores in different towns would increase brand awareness. the market research has shown that the extreme sports is a fast growing market, which means that young people are very interested in this kind of sports, there fore the target market for the new shops would be 16–30 years old, the research has shown that this age category is unaware of out & about plc, therefore by opening new shops in different locations would increase the brand awareness of the shop. |
| Content Application Analysis | <p>The extreme sport market size volume in 2009 was 14.04 and by 2015 it will increase to 17.50, this is a great opportunity for the new plan as it can take advantage of the growth that the market is going to have. Also in 2009 the value of the market was £950 but by 2015 it will increase to £1100. This is a growth of 15.7%. It would have an advantage if the new plan is implement right away as it can start stabilising is brand as a extreme sport supply shop.</p> <p>There is a higher levels of sales generated per square metre per year in out of town stores, of £35000 whereas in the high streets stores there is £30000 of sales. Although the difference is not huge, its still a higher revenue.</p> <p>However they need to analyse and consider their decision carefully. As the average amount spent per head in extreme sports increases as throughout the years. In 2009 it was £500 but in 2010 this increases to £550 and by 2015 its gets higher to £625, it should be taken into account that the years 2010 and 2015 are forecasted years which means that its a prediction which could change to a higher or lower expenditure.</p> |
| Content Application Analysis Evaluation | <p>The plan should consider; if is put forward, to resolve future problems with the suppliers as the delivery time increases throughout the years in 2005 the average delivery time was 2 days but it increased to 10 days in 2009 and its forecasted to increase by 15 days in 2015. The company would have to plan their stock carefully and make sure they are not holding too much stock or to little as they may not meet demand and if they hold too much, then too much cash may be tied to assets which can effect the cash flow and inflow of money. It should also be considered that the 2015 figure is a forecast which means that the number of days could increase as well as decrease.</p> <p>It should also be taken into account that most of the out of town figures are forecasted as well as other figures that the company may rely on to make the decision the figures for level of sales generated per square metre is forecasted, which it can decrease and bring potential problems.</p> |
| Evaluation | I recommend that the company should go forward with the new plan, as the original out & about company is currently not being succesfull and its profits are decreasing. The forecasted figures show that the extreme sports market is increasing, therefore the new plan would be able to take advantage of that & increase profit. |

| | Commentary for Question Four |
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| | <p>In the first paragraph, the candidate reveals reasonable understanding of the benefits that could result from opening the new stores in terms of attracting the 16–30 year old target market. Level 2 content and Level 1 application marks are awarded.</p> <p>In the following paragraph, the attractions of the growth in the extreme sports market are identified and explained with use of relevant examples from the case study. Level 2 content plus Level 1 application and analysis marks are gained.</p> <p>The following paragraphs reveal understanding of relevant arguments such as the predicted level of sales per square metre and supplier issues. Level 2 content marks are awarded, but as there is no mention of finance and HR issues, Level 3 marks cannot be given due to the insufficient range of arguments. The candidate makes sufficient use of the case material to be awarded Level 2 marks for application. There is also evidence of limited analysis and also evaluation, as the candidate has recognised that much of the data is forecasted.</p> <p>In the final paragraph, the candidate makes a recommendation that the proposal should be adopted which is based upon the recognition that the business is currently struggling. This is considered to be reasonable judgement, but the lack of range of arguments plus limited analysis results in an evaluation mark being awarded at the bottom of Level 2.</p> |

Grade Achieved: Borderline E

GCE Business Studies

Exemplar Response and Commentary to BUSS3 January 2010 Question Paper

Please note that the candidate's response has been typed exactly as it was written.

| Candidate C - Question One | |
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| AOs | Candidate Response |
| Content Analysis Application | A soft HR strategy is one which treats its employees as a valued asset, they are seen as a major source of competitive advantage and of vital importance in achieving the strategic objectives of the business. A soft approach has many advantages to a business, for example it has more empowerment and delegation. This means that the staff have more authority over the work which they do. By having more authority it can motivate staff as they feel like they are trusted more and therefore they want to do the work to show that they are able to do it. This would be a benefit for Out and about plc's because not only would it increase efficiency within the production which they do to make the clothes but it will also help with the shops as if people are more motivated then they will be happy at work, meaning customers will get a positive vibe from them which could mean they will want to shop here again. |
| Application | Another advantage of having a soft approach is that it means recruitment costs will be low. This is because people will be much more willing to stay in there job because they enjoy it so much. This means that labour turnover will be low. If labour turnover is low then it means that there should be high morale within the workforce as they do want to work. This will be good for Out and About because it would mean again there would be a happy environment for its customers to come to. But also it means that they have a reduced cost and could spend this money on other parts of the business to help them with other parts of the stores. |
| Analysis | Overall by having a soft strategy it means that employees are normally much more motivated and this will create a nicer working environment for both customers when coming into the shops, as they are more likely to be treated better and any help they need they would get it. It can also reduce costs for the business. |
| | Commentary |
| | <p>The candidate starts well by offering a correct definition of soft HRM and is awarded full marks for content. The motivational benefits resulting from empowerment and delegation are identified and explained gaining Level 2 marks for analysis. One mark is also awarded for application as there is a limited attempt to contextualise by referring to the benefits of improved customer service in the shops.</p> <p>In the final paragraph, the candidate is awarded full marks for analysis due to a well developed line of argument resulting from the benefit of lower labour turnover.</p> |

| Candidate C - Question Two | |
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| AOs | Candidate Response |
| Content | A marketing plan brings together all the aspects of the firms marketing, it sets out how the marketing strategies were formed and how they will be carried out. |
| Content | Within Lisa's marketing plan there will be many things which she will include like the marketing budget and what things are going to be done, and when they will be done, how they will be done and who will be responsible for each activity. |
| Content | <p>There will be the internal influences of the business which would influence the marketing plan. For example, the finance of the business will have an influence because if they are unable to afford some things then this will have an impact on the marketing plan. They need to know how much finance they have available to be able to open the stores which they want.</p> <p>Other internal influences will include influences from the operations and the hrm departments. The operating function of the business will need to know how many more clothes will need to be made and it what time period, the operations may limit what they can do as if they do not have enough resources or machinery then they will not be able to make the clothes that they will need to sell in the shops. Then the HRM department will have an influence on the marketing plan because they will limit what the firm can do by the number of staff they have available. They would need to know if they had enough staff and if they had staff with the right skills.</p> <p>There would also be external influences on the marketing plan, for example the economy and the market. If the market was growing then they would have to think about the competitors within the market and whether they knew enough about the market (as they are diversifying)</p> |
| Application Analysis Evaluation | They would also have a look at the economy and whether the economy is good or bad at the moment. Obviously if it is bad then they will have to try and do lots of advertising to try and get people to buy their products but this may not help as people may not be able to afford their products so they would have to see whether they were doing the right thing at the right time. As they are selling premium priced, high quality products then these may be the things which people cut out on first. |
| Evaluation | Overall I I do not think there is a most important influence of the marketing plan. I think that they are all equal factors which could affect the marketing plan of the business. They need to know whether they have enough capacity to go ahead with diversifying, but they also need to know about the market which they are stepping into and whether or not it has changed or whether or not it is changing, if the customer needs are changing then the business needs to know otherwise it will be selling the wrong products in their shops. |

| | Commentary for Question Two |
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| | <p>In the first sentence one mark is awarded for content due to the candidate revealing some understanding of a marketing plan. A second content mark is gained after the second sentence, although clumsily expressed, the candidate has, by now, shown good understanding of the term. Full marks for content are awarded in the following sentence as the candidate has identified a relevant influence of finance on the marketing plan.</p> <p>In the following paragraph, valid operations and HR influences are identified. However, the candidate reveals confused understanding of the nature of the business by referring to the manufacturing of clothing. Consequently, application marks cannot be awarded. The candidate also reveals poor exam technique by failing to explain how the HR influences could affect the marketing plan and there is no attempt to use the case study material. The next section is stronger as the candidate identifies and explains the influence of a declining economy upon a business that sells premium priced, high quality products. As a consequence, Level 1 marks are gained for application, analysis and evaluation.</p> <p>In the final paragraph, the candidate makes a limited attempt to evaluate by identifying the range of factors that would need to be considered in the implementation of the marketing plan. However, no overall judgement is shown resulting in only Level 1 marks for evaluation being awarded.</p> |

Candidate C - Question Three

| AOs | Candidate Response |
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| Content | <p>A marketing budget is the money which the marketing department are able to spend on their marketing activities. Out and about need to find £14million to go ahead with what they are wanting to do. To raise capital they could get a loan from the bank.</p> |
| Content Application | $\text{Gearing} = \frac{\text{non current liabilities}}{\text{total equity} + \text{non current liabilities}} \times 100\%$ $= \frac{280}{500 + 280} \times 100\%$ $= 35.8974359$ $= 35.9\%$ |
| Analysis | <p>As you can see from this figure of 35.9% they are quite lowly geared, this means that there isn't much money coming in from bank loans to pay for the things within the business. This is good as it means they would be able to take out a loan to raise some of the capital which they needed. A bank would be able to see they were lowly geared ahead and would be able to afford to pay back the bank loan.</p> |
| Content Application Analysis Evaluation | <p>The business also has high amounts of non current assets. These are the buildings which they own or the cars etc. As they have £800 million in these assets they could sell some of these to make the money which they need. This may decrease their maximum capacity but it would give them the money which they needed.</p> <p>Another thing which they could do to raise finance is to sell more shares, they could sell new shares to their existing shareholders but at a lower price to normal share prices. This would create them more capital which they could use for the project. Although their share capital is quite high which means they will already be giving lots of dividends, so it may not be a great idea to create more shares which even more dividends will have to be paid.</p> <p>There operating profit is not very high and so they would not want to take money out of their retained profits although they would have enough to use there retained profit they would be using most of their retained profits and this would not be good.</p> |
| Evaluation | <p>Overall I think that the best way for them to get the finance which they need for this marketing budget would be to get a debenture (long term loan) their gearing level is low so they would easily be able to get a loan and they could keep the retained profits in the business for anything else they may want.</p> |

| | Commentary for Question 3 |
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| | <p>The candidate gains an initial content mark for identifying a loan as a relevant source of finance. The correct calculation of the gearing ratio results in the awarding of an additional content mark and Level 1 application. The consequent interpretation of the gearing percentage with reference to obtaining a loan results in Level 2 analysis marks being awarded.</p> <p>In the following paragraph, full marks for content are given due to the candidate identifying non-current assets as another relevant source of finance. The reference to the value of £800m is a reasonable attempt to use context and is awarded Level 2 marks for application. In addition, the explanation of the consequences from selling non-current assets gain Level 1 analysis and evaluation marks.</p> <p>The reference to the use of share capital would also be awarded marks for each of the assessment objectives, but is not considered to be at a higher level than the previous paragraph.</p> <p>In the final paragraph, the candidate reveals some good judgement by recommending that a debenture would be the best source of finance with reference to the low gearing level. Level 2 marks for evaluation are awarded.</p> |

Candidate C - Question Four

| AOs | Candidate Response |
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| | <p><u>Case Against</u></p> <p>The market which they are working in at the moment, they have 100 shops in total out of these 100 shops they are going to close 50 of them because they are under performing. Before they go ahead with the proposed new plan, they would need to look why these shops were underperforming. This is a market they are meant to know well and if half of their shops are underperforming it suggests that maybe they do not know this market as well as they should. If they do not know this market that well and they have been in this market a while then this could mean that they don't know the market they are going to go into very well either. If this is the case and they don't know it as well as they should then they should not go ahead.</p> |
| <p>Content Application</p> | <p>Another reason why they should not go ahead is that Lisa has not consulted Mike about it, Lisa may think this is a good idea because the market she wants to go into is growing but she has only just been appointed with this position so does not have great experience yet. She may not realise the implications which the plan could have on the business, which could mean the business could struggle once entering the new market.</p> |
| <p>Content Application Analysis Evaluation</p> | <p>They are wanting to target the market of people between the age 16–30, although this seems the best target market as these are the people who participate in 'extreme' sports the most. Out and About plc have staff of an average age of 45. These staff will not be helpful with younger customers as they will not understand them as much. Even with lots of training they will not understand exactly what the customers are wanting due to the age difference. Also having such an age difference could put people off going into the shops, they may just glance at the shopworkers and know that they will not know what they want so there is no point going in to the shop.</p> |
| <p>Analysis</p> | <p><u>Cases For</u></p> <p>The market which they are wanting to go into is a fast growing market and it seems people are going to spend more money on 'extreme' clothing each year. If this is the case then it would be very good for Out and about as it means they could come into the market and they could get a good market share and by getting a good market share it means as the market grows they will receive more and more sales which means that their profits should rise. Another reason for them going ahead is because their gearing level is so low, this means they could already be missing out on opportunities by having such a low gearing level, so by taking out a debenture and using this to enter a new market would be good. They have a healthy balance sheet and income statement so they would easily get a loan with a lowish interest rate.</p> <p>But they would be unable to just sack all of their staff because 75% of them are part of a trade union which would cause problems such as strikes and they would not be able to sack people because of their age as this is not allowed.</p> <p>By moving into this market and selecting a hard approach will mean that they are more flexible when it comes to the responding to changes in the market. A</p> |

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| <p>Content</p> <p>Evaluation</p> | <p>flexible approach will mean that they would be more competitive in the market and other firms may find it hard to compete.</p> <p>As Lisa was a marketing director then this would also help because it means that she will know how exactly to get people to know more about their shops. As at the moment not many people of the target market know about the shop but Lisa and the marketing team could make sure that people started to hear about it more.</p> <p><u>Recommendation</u></p> <p>Overall I think that they should not go ahead with it. Lisa wants to do profit centres and bring in a hard approach. If she did this to the current business then they may be able to improve the 50 shops which are under performing. They would be able to see what problems there were in these under performing shops and they would be able to be sorted out.</p> <p>But the new market does seem appealing and they may decide to go ahead with it once they have done lots of planning and found out the reasons for the under performing shops so that these problems do not happen again. Once they have found out the problems then they can make sure they don't happen again which means they won't have similar problems as before.</p> <p>I think they should try and sort out the market they are in now then once they have done that they can diversify and move into a different market. Once they know everything about the market and what they will do with their workforce. Creating a workforce plan might be a good idea so they can create a desired workforce for the future. If they did this before opening new shops then they would already have the desired workforce for the plan they want to go ahead with.</p> |
| <p>Commentary for Question Four</p> | |
| | <p>In the first paragraph no marks are awarded as the candidate is not focusing on the question due to the fact that there is no reference to the proposed strategy.</p> <p>Level 2 content and Level 1 application marks are awarded in the next paragraph as the valid point that Lisa has not consulted the owner Mike, is identified with some explanation.</p> <p>The next paragraph is stronger as the candidate identifies and explains the problems of employing staff who are considerably older than the target market and the possible consequences. Level 2 content and application plus Level 1 analysis and evaluation marks are awarded.</p> <p>In the 'arguments for' section, the candidate shows reasonable understanding of a number of relevant arguments. The reference to the low gearing shows a reasonable attempt to use context but there is only a limited attempt to analyse each of these arguments.</p> <p>In the 'recommendations' section the reference to profit centres and its explanation results in the candidate gaining Level 3 marks for content. By now there is evidence of good understanding of a range of factors. In the final two paragraphs, Level 2 evaluation marks are gained as the candidate reveals reasonable judgement by referring to the need to take further action, such as more market research and workforce planning considerations. However, there</p> |

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| | is no attempt to make an overall judgement as to whether or not the proposed strategy should be adopted. |
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Grade Achieved: Borderline B