

Mark Scheme (Results)

Summer 2010

GCE

GCE BUSINESS STUDIES (6BS04) Paper 01

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Unit 4A: Making Business Decisions

Marking Scheme

Question Number	Question	
1.	What is meant by the term 'mission statement' (see Evidence F line 6)?	
	Answer	Mark
	<p>Knowledge up to 2 A definition of a mission statement, e.g. "the main aim or purpose of the business, usually set out in published form such as in an annual company report". Their aim is to establish themselves as the market leader worldwide for the provision of well engineered folding bicycles.</p> <p>Notes: 1 mark for partial explanation, but a valid extension or example will gain the second mark.</p>	1-2

Question Number	Question	
2.	What is meant by the term 'current ratio (see Evidence G)?	
	Answer	Mark
	<p>Knowledge up to 2: A valid definition of current ratio e.g. "the financial ratio which indicates the ability of a business to meet its debt obligations." or equivalent demonstrating understanding. Alternatively, the formula may be given = 2 marks.</p> <p>Note: 1 mark for partial or vague definition (but a valid example or correct formula lifts to 2 marks)</p>	1-2

Question Number	Question	
3.	<p>Explain two distinctive capabilities which provide competitive advantage to Brompton.</p>	
	Answer	Mark
	<p>Knowledge up to 2 marks: knowledge of competitive advantage (1 mark) and distinctive capabilities (1 mark).</p> <p>Application up to 2 marks: Using Porter, their quality obsession and innovative design has given them an excellent reputation and customer relationships. Focus is a valid alternative. Alternatively, candidates may use Hamel & Prahalad's core competency approach (market access, perceived customer benefits, difficult to imitate).</p> <p>Analysis 1 mark: Candidate shows at least one cause, cost or consequence of Brompton's 'distinctive capabilities'.</p>	<p>1-2</p> <p>1-2</p> <p>1</p> <p>Total (5 marks)</p>

4.	Briefly comment on the likely impact on Brompton Bicycle Limited's corporate strategy of policies such as the Green Transport Scheme. (See Evidence A, line 25)	
	Answer	Mark
	<p>Application up to 2 marks:</p> <p>Candidates are expected to recognise that environmental and health issues, supported by government initiatives in existing markets have made cycling more popular (1 mark) and overall demand for bicycles is likely to increase (1 mark)</p> <p>Analysis up to 2 marks:</p> <p>The 50% subsidy of the GTI is a substantial incentive and a top end player such as Brompton may well benefit more than competitors as its product may become more affordable to a new market segment (1 mark). Brompton may therefore choose to focus its marketing strategy on markets offering subsidies (1 mark).</p> <p>Via trade associations, such as the Bicycle Association of Great Britain or the Association of Cycle Traders, manufacturers and retailers may well collaboratively advertise the scheme (1 mark). On the other hand, the Brompton is very much a luxury product and may still be seen as unaffordable in the mass market (1 mark).</p>	<p>1-2</p> <p>1-2</p> <p>Total (4 marks)</p>

Question Number	Question	
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	<p>Knowledge up to 2:</p> <p>A valid definition of current ratio e.g. "the financial ratio which indicates the ability of a business to meet its debt obligations." or equivalent demonstrating understanding. Alternatively, the formula may be given = 2 marks.</p> <p>Note: 1 mark for partial or vague definition (but a valid example or correct formula lifts to 2 marks)</p>	1-2

Question Number	Question	
5.(a)	Using Evidence F to support your answer, calculate the current ratio for 2006 and 2007.	
	Answer	Mark
	Knowledge up to 2 Correct current ratio formula (2 marks). Knowledge of current assets or liabilities (1 mark)	1-2
	Application up to 2 Correct calculations (1 mark each) <ul style="list-style-type: none"> • 2007 $3254/661=4.92$ • 2006 $2706/585=4.62$ 	1-2
		Total (4 marks)

Question Number	Question	
5.(b)	Comment on the result of these calculations	
	Answer	Mark
	Application 2: Brompton has very high liquidity	1-2
	Analysis up to 2: Can easily meet debts when they fall due (1 mark), ratio is strengthening in the period (1 mark)	1-2
		Total (4 marks)

Question Number	Question		
6.	Evaluate Brompton Bicycle Limited's decision to "outsource non-core elements of the manufacture" of its bicycles. (Evidence B, line 37)		
	9 marks		
Level	Mark	Descriptor	Possible Content
Level 1	1-2	Candidate shows knowledge of outsourcing and/or non-core elements.	<ul style="list-style-type: none"> Outsourcing involves a firm finding an external business to carry out part of the production process, in order to cut costs or achieve a better level of service.
Level 2	3-4	<p>Answers should be related to Brompton.</p> <p>Toolkit should be applied to context. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject).</p>	<ul style="list-style-type: none"> Only skilled aspects of the manufacturing process are completed in the UK Parts manufacturing, painting etc. has been out-sourced to lower wage economies to reduce costs
Level 3	5-6	Candidate analyses the consequences of outsourcing to Brompton.	<ul style="list-style-type: none"> Brompton operate in a market niche and are arguably the "Rolls Royce" of folding bicycles. Nonetheless, they need to cut costs and improve flexibility, particularly as they currently are unable to meet effective demand for their machine in the USA
Level 4	7-9	<p><u>Low Level 4: 7-8 marks</u> Advantages and disadvantages explained and support some evaluation.</p> <p><u>High Level 4: 9 marks</u> Expect to see convincing evaluative points with a conclusion.</p>	<ul style="list-style-type: none"> For the decision to be a success the integrity of the brand needs to be defended and the product's engineering USP maintained Stock turnover is low and this is probably due to the WIP consisting of completed, but unassembled frames. They have the opportunity of using their brand to produce a sub brand and outsource production of this to East Asia to their design. Their past experience of joint ventures may well have put them off repeating this, but a different more controlled approach could pay dividends. In particular, it could shift the fixed and variable cost balance in their favour. Without patent protection,

			Brompton would, however be unwise to part with trade secrets.
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Section B

Question Number	Question																																							
7.(a) QWC i-iii	<p>a) 7(a)* Brompton are considering the development of a new bicycle model and Will Butler-Adams has asked you to construct a decision tree which is appended below. Options are to (a) thoroughly develop and test the product, (b) rapidly get a new product to market, (c) further develop an existing model or (d) simply further advertise the existing range. Probability factors are based on reactions of a focus group of folding bicycle owners. Using the decision tree and other evidence, advise Butler Adams how he should proceed. (20)</p>																																							
Indicative content																																								
<p>Knowledge & Application Calculations to a maximum of 6 marks (see below)</p> <table border="1" data-bbox="368 752 828 1263" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Net Outcome</th> <th>Market Reaction Probability</th> <th>Expected Value (£)</th> </tr> </thead> <tbody> <tr> <td>500000</td> <td>0.4</td> <td>200000</td> </tr> <tr> <td>200000</td> <td>0.4</td> <td>80000</td> </tr> <tr> <td>50000</td> <td>0.2</td> <td>10000</td> </tr> <tr> <td>600000</td> <td>0.1</td> <td>60000</td> </tr> <tr> <td>25000</td> <td>0.2</td> <td>5000</td> </tr> <tr> <td>1000</td> <td>0.7</td> <td>700</td> </tr> <tr> <td>200000</td> <td>0.3</td> <td>60000</td> </tr> <tr> <td>100000</td> <td>0.4</td> <td>40000</td> </tr> <tr> <td>10000</td> <td>0.3</td> <td>3000</td> </tr> <tr> <td>50000</td> <td>0.2</td> <td>10000</td> </tr> <tr> <td>20000</td> <td>0.2</td> <td>4000</td> </tr> <tr> <td>100000</td> <td>0.6</td> <td>60000</td> </tr> </tbody> </table>		Net Outcome	Market Reaction Probability	Expected Value (£)	500000	0.4	200000	200000	0.4	80000	50000	0.2	10000	600000	0.1	60000	25000	0.2	5000	1000	0.7	700	200000	0.3	60000	100000	0.4	40000	10000	0.3	3000	50000	0.2	10000	20000	0.2	4000	100000	0.6	60000
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Level	Mark	Descriptor	Possible Content
Level 1	1-3	<p>Candidate shows knowledge and understanding of decision trees</p> <p>Note: look to award this level when candidate does not calculate expected values.</p> <p><i>To achieve a mark of 1 – 3 the candidate will have struggled to use business terminology legibly with frequent errors in SPG and / or weak style and structure of writing.</i></p>	<ul style="list-style-type: none"> • Knowledge of probability; decision-points; expected outcomes etc.
Level 2	4-6	<p>Candidate applies information of decision trees to calculate expected outcomes for each choice.</p> <p>Candidate uses some business terms but the style of writing could be better. There will be some errors in SPG. Legibility of the text could have been better in places.</p>	<ul style="list-style-type: none"> • See results in table above • At the lower end of the range answers may describe the business implications of different probabilities and net outcome mentioned in decision tree diagram.
Level 3	7-12	<p><u>Low level 3: 7 – 8 marks</u> Narrower and or weaker analysis relevant to the question. Answer may focus on quantitative data only.</p> <p><u>Medium level 3: 9 – 10 marks</u> Expect to see a sound analysis based on quantitative and/or qualitative evidence,</p> <p><u>High Level 3: 11 – 12 marks</u> Expect to see strong analysis using Quantitative Decision Tree information and other Qualitative evidence to attempt evaluation.</p> <p><i>The candidate uses business terminology quite well with reasonable to good spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> • Launching a new product after thorough testing and development has the highest Expected Value (£200000). However, there is only a 0.4 probability attached to this choice which is risky • Importantly though a ‘moderate’ market reaction to a new product is the next highest EV – add these together and there is a 0.8 chance of a ‘positive’ response to a new product launch • Brompton customers are used to high levels of design and engineering quality; they are therefore more likely to buy and thoroughly tested new product at launch

<p>Level 4</p>	<p>13-20</p>	<p><u>Low Level 4: 13 – 15 marks</u> Some evaluative points are made, based on analysis of the business situation and / or numerical data.</p> <p><u>Mid Level 4: 16 – 17 marks</u> Convincing advice is given, with arguments for and against evident.</p> <p><u>High Level 4 – 18-20 marks</u> Works to a convincing judgement on the development decision, making full use of the ‘MOPS’ to contextualised the decision.</p> <p><i>Candidate uses business terminology precisely and effectively with good to excellent spelling, punctuation and grammar</i></p>	<ul style="list-style-type: none"> • Launching a new product and thoroughly developing the product is the best option in both quantitative and qualitative terms • This decision fits with the corporate culture and values of the business and also allows them to respond to a rapidly changing market for folding bikes • Consideration though must be given to the weaknesses and assumptions underlying the Decision Tree method (probabilities and Net Outcomes being estimates)
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Question Number	Question		
7.(b) QWC i-iii	Evaluate the extent to which Brompton should develop its markets.		
Level	Mark	Descriptor	Possible Content
Level 1	1-3	<p>Level 1: 1 – 3 marks Candidate shows knowledge of Market Development/Ansoff's Matrix.</p> <p><i>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text</i></p>	<ul style="list-style-type: none"> • Market Development is a Generic business strategy referred to in Ansoff's Matrix. It involves a business selling its existing products to new markets – these can be geographically and/or different market segments • To Brompton this may involve selling their folding bikes to the USA and the far East • This can be contrasted with Market development and Diversification
Level 2	4-6	<p>Level 2: 4 – 6 marks Candidate applies market development and/or Ansoff to Brompton Bicycles.</p> <p>Toolkit use may be limited.</p> <p><i>The candidate may use some business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> • To Brompton this may involve selling their folding bikes to the USA and the far East • This can be contrasted with Market development and Diversification.
Level 3	7-17	<p>Low Level 3 7-9 marks Candidate begins to analyse the Causes, Costs, Consequences of Brompton Bicycles attempting to develop its markets. At this level of analysis context may be weak/missing.</p> <p>Mid Level 3 10-13 marks Candidate makes a sound one-sided analysis of the strategy, using examples from the Brompton context.</p> <p>High Level 3 14-17 marks Candidates will thoroughly analyse the Causes, Costs and Consequences of the strategy.</p>	<ul style="list-style-type: none"> • Market Development is generally seen as risky as there is at least one unknown variable to the business (the markets it will move into) • Brompton's attempts to enter the US have been faltering to date due to production/supply issues • Successful market development should reduce the risk of concentrating on one niche market (commuters in the UK mainly) • Brompton face a number of production and supply issues that are limiting its ability to

		<p>Context will be clear and the candidate will make good use of the pre-release material. At this level analysis will still be one-sided.</p> <p><i>Candidate will use business terminology well / style of writing is appropriate to the question / reasonable to good SPG</i></p>	<p>meet the current needs of its existing market</p> <ul style="list-style-type: none"> • Market Development may be desirable for a business looking to expand and increase sales, but do so with a successful and unique folding bike product • The potential market for folding bikes seems to be a specialised niche and it is therefore unlikely that market development on a segmental basis would be a success
Level 4	18-30	<p><u>Threshold Level 4 18-19 Marks</u> The candidate attempts to make Evaluative comments (arguments for and against)</p> <p><u>Low level 4 20-21 Marks</u> The candidate evaluates by looking at a limited number of arguments for and against the strategy of Market Development.</p> <p><u>Mid level 4 22-25 Marks</u> The candidate evaluates by looking at a wide range of arguments for and against the strategy of Brompton developing its markets.</p> <p><u>High Level 4 26-30 Marks</u> Balanced, contextualised conclusions based on sound evaluation of the Market, Objectives, Product, Situation that applies to Brompton’s decision.</p> <p>There will be a clear articulation of the extent to which the strategy should be followed.</p> <p><i>Answer is clear, and the candidate makes good use of terminology and toolkit. Candidate uses business terminology fluently with good spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> • Market Development is needed if Brompton is to prosper. Its USP is the product design (although this has been imitated), so Product Development would see a move away from its core strengths • To be a success this strategy needs to be supported with investment and management discussion of the production and logistics issues they face • The question does not specify physical or geographical markets and should enable better candidates to select and justify market segments to focus on. The US market has some potential, but production lags need to be dealt with before attempting to exploit this fully. • Outsourcing and producing a mass market product are other possibilities, but would they fit with the values and culture of Brompton? • There is a degree of uncertainty and risk in entering new markets. Brompton has little experience of such a strategy.

Assessment objectives and Specification coverage

Question No.	Knowledge	Application	Analysis	Evaluation	Total	Specification Coverage
1	2				2	4.3.1a
2	2				2	4.3.1d
3	2	2	1		5	4.3.1d
4		2	2		4	4.3.3a
5(a)	2	2			4	4.3.3a
5(b)		2	2		4	4.3.3a
6	2	2	2	3	9	4.3.2a
7 (a)	3	3	6	8	20	4.3.2c
7 (b)	3	3	11	13	30	4.3.2a
Total	16	16	24	24	80	
Total Required	16	16	24	24	80	

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