



# Examiners' Report

## January 2011

### GCE Business Studies 6BS04 01



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## Introduction

This is the second full series of this unit. The questions and format follow a similar style to the successful and popular preceeding series, based on Brompton Bicycles.

Unlike the Brompton Bicycles pre-release, this series featured a large national PLC, Morrisons. The intention was that the business provided an accessible context for students who will be familiar with the supermarket sectors. Throughout the period of pre-release there have been numerous media features on supermarkets in general and Morrisons in particular; this undoubtedly enhanced preparation for students.

The paper followed the previous format of smaller knowledge and application based questions, progressing to an Evaluation question at the end of section A. A case study example such as Morrisons with its interesting recent history provided a wide scope for examining topics not tested to date. Section B, as will always be the case, asked 'open-ended' questions intended to prompt students to explore broad issues of Corporate Strategy.

## Question 1

This is a straightforward question requiring students to show knowledge of labour productivity. This answer saw many students achieving one mark out of two. Candidates could achieve full marks by either verbalising a response, or writing the response as a calculation. Few candidates quantified their response in terms of a time-frame, for example 'Labour Productivity measures the output per worker, per time period.'

### Section A

Evidence A to G was pre-issued before the date of the examination.

Using the evidence and your own knowledge, answer all six questions (total 30 marks).

Time allowed (35 minutes).

#### Additional Evidence H

#### Labour Productivity and Employee Turnover at Morrisons

##### Labour Productivity

After the cost of products, our two biggest costs are store wage costs and distribution costs. In both areas, we continued to improve our efficiency.

Store labour productivity increased by 6% year on year, following a 14% improvement in the previous year.

(Source: Morrisons Annual Review and Summary Financial Statement 2008)

##### Employee Turnover

Employee stability\*  
(%)



Between 2008 and 2009 our employee (labour) turnover rate has fallen and our employee stability has risen 2% to 78%. Moreover, some 33% of our employees have been with us for at least five years, with 164 celebrating 25 years' service in 2009.

\*Employee Stability is the percentage of workers who have been with the business for over a year.

(Source: from Morrisons Annual Report and Financial Statements 2009)

- 1 What is meant by the term 'Labour Productivity' (see Additional Evidence H)?

Labour productivity ~~is the efficiency of staff based on the number~~ shows the efficiency of staff compared to the firms output. It is expressed through the formula:  $\text{output} \div \text{number of staff} \times 100\%$  to give

a percentage of the productivity or efficiency of how morrisoi's staff are working.

**ResultsPlus**

Examiner Comments

This response gives a clear definition of how labour productivity is calculated and also refers to 'efficiency' which is also worthy of credit. The answer would have been even better had it referred to a time period e.g. output per worker, per hour.

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Examiner Tip

This question simply asks for Knowledge of the labour productivity term. Application is not required to achieve the two marks.

1 What is meant by the term 'Labour Productivity' (see Additional Evidence H)?

Labour Productivity is the percentage of employees that left the business in contrast to employees that are still working per morriens

**ResultsPlus**

Examiner Comments

This response can clearly be contrasted with the previous example. Some candidates are still confusing the terms 'labour productivity' with 'labour turnover' (as this response does). Both are a measure of Human Resource Competitiveness, but should not be confused.

## Question 2

This question was answered well. Many students explained that Operating Profit can also be known as Net Profit and went on to correctly state that it is most commonly calculated as Gross Profit - Expenses. Some candidates achieved two marks by explaining the term in terms of profit once fixed and variable costs have been removed, but before tax.

2 What is meant by the term 'Operating Profit' (see Evidence B, line 6)?

operating profit =  
Gross Profit - Expenses.  
Expenses can be, for example, Administrative  
expenses or property transactions.  
Operating profit is Profit before tax &  
finance costs.



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Examiner Comments

The candidate clearly shows the calculation for Operating Profit and goes on to explain the term in more depth. Two marks.



**ResultsPlus**

Examiner Tip

Again only knowledge required. This could be achieved with straight reference to the calculation.

### Question 3

There was evidence of some confusion in candidates' responses. 'Organic growth' is where a business expands without the involvement of another business. An example of this would be Morrisons plans to expand 'External growth' does involve another business and comes in the form of a merger or acquisition. In Morrisons' case External growth is exemplified by their acquisition of Sainsbury. External growth does not have to be financed externally. A large number of candidates used the method of finance (Internal or External) to explain the answer, when this is not the means of separation in this case.

- 3 Explain the difference between 'Organic growth' and 'External growth' with reference to Morrisons.

organic growth is growth internally. ~~with~~ An example is Morrisons expanding by increasing floorspace; they are using their own resources. Building new stores using their own resources. However ~~External~~ very different from external growth. An example of this is growth by Acquisition. Morrison acquired Sainsbury, and redeveloped their stores as a way of increasing floorspace.

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Examiner Comments

This response clearly explains the difference using relevant examples from Morrisons example. Four marks.

**ResultsPlus**

Examiner Tip

The question is requiring a clear distinction to be made between 'Organic' (Internal) growth and external growth, with clear examples of each. The key difference is whether another business is involved, or not. The way in which the takeover is financed does not necessarily make any difference.

to Morrisons.

Organic growth is where a business grows ~~as a result of its own~~ by building & opening new stores, like Morrisons plan to do in 2010-11 (evidence A, lines 14-15). External growth can be, for example, growth by acquisition, like Morrisons has done in 2004 (Evidence A, lines 1-2).

Both are good options for growth, but quantitative factors, like cost & time, must be considered using investment appraisal techniques, & also tools like Critical Path Analysis & decision trees. Market research must also be ~~taken~~ done.

(Total for Question 3 = 4 marks)



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Examiner Comments

This candidate also gains four marks by referring to the relevant area of the pre-release by line number. This is perfectly acceptable (if accurate!)



### Question 4 (a)

This question was either answered well, with candidates achieving four marks, or answered poorly or not at all. Candidates who gained the correct answer achieved full marks, irrespective of whether they showed the Gross Profit Margin formula - the Knowledge here was seen to be implied. However, candidates and centres are reminded that it is good practice to outline the calculation method, so that if errors are made and the incorrect figures are inserted, candidates can still gain reward. Candidates were awarded four marks for answers to one or two decimal places. For those achieving three marks, the most common reason was mixing the years i.e. explaining that 2008's GPM was 6.28% and in 2009 it was 6.31%.

4 (a) Using Evidence B, calculate the Gross Profit Margins for 2008 and 2009. (4)

$$\frac{\text{Gross profit}}{\text{Revenue}} \times 100 = \text{GPM}$$

$$2009 = \frac{913}{14528} \times 100 = 6.28 \%$$

$$2008 = \frac{88}{12969} \times 100 = 6.31 \%$$


**ResultsPlus**

Examiner Comments

This response provides an excellent example of calculating Gross Profit Margin, along with accurate working shown. Section a: four marks. In section b the candidate identifies a slight drop and then goes on to analyse why this may have occurred: three marks.



**ResultsPlus**

Examiner Tip

Candidates are required to make accurate calculations and then analyse what the results mean for Morrisons. Note that 'comment on' is a higher order command term, requiring analysis. In section a candidates achieve the full four marks for two correct answers.

### Question 4 (b)

Some candidates struggled with this question. The Application element was that students would see that the figure had either stayed the same (if calculating to 1 d.p.) or fell slightly (if calculating to 2 d.p.) The analysis marks were available for some comment about that this means i.e. that cost of sales has increased at the same rate as Turnover. Good answers showed a good understanding of what the GPM measures and what this means for a business such as Morrisons.

(b) Comment on the results of these calculations.

(4)

the results found that their gross profit margin had dropped slightly by 0.03% even though revenue had increased by 12% and the same percentage increase in gross profit. So it looks like Morrisons have to single out their cost for rising and lowering the GPM.



**ResultsPlus**

Examiner Comments

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Examiner Tip

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### Question 5

This question was answered well by many candidates. The Application and Analysis marks were accessible for a whole range of responses. Some candidates picked up on the policies used by Morrisons in Evidence C and how these could offer reasons for workers to stay, therefore reducing labour turnover. The best responses tended to look at one internal reason i.e. the incentives previously mentioned, along with an external factor, such as the recent economic downturn reducing the alternatives for employment and thus people's willingness to leave. Few candidates achieved full knowledge marks for adequately showing knowledge of labour turnover; six mark responses were therefore uncommon.

- 5** Analyse **two** possible reasons for recent improvements in Morrisons' Employee Labour Turnover figures (see Additional Evidence H).

Labour turnover shows the number of staff coming in and out of the business. It is best to have a low labour turnover because it ensures teams are created, and staff work efficiently. The first reason for the recent improvement could potentially be external; the recession. With unemployment rates at an all time high, people are happy to have a job and don't take their chances with new ones. They would rather stay in a secure job where they're valued. The second reason could be the excellent perks and packages Morrisons staff receive. For example, all full-time staff receive 29 days paid holiday; in addition, staff are issued with service curricula to keep them working towards something.

(Total for Question 5 = 6 marks)

\* Between 08 and 09 Morrisons labour turnover rate <sup>has fallen</sup> and their employee stability has risen drastically from 2% to 78%.



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Examiner Comments

In this response the candidate clearly does all three of these things, taking the popular approach of looking at an internal reason: the package offered to staff as outlined in the pre-release, and the external reason: the current economic climate and alternative employment being less available.



**ResultsPlus**

Examiner Tip

This question has three clear parts: one - to accurately define and explain labour turnover, two - explain in theory two reasons a fall might occur, three - apply the answer to the Morrisons example.

### Question 6

Many candidates found this question difficult. Some candidates did not understand the concept of corporate culture and therefore discussed how Sir Ken's departure might affect Morrisons marketing strategy. There was more than one way to approach this question and all had merit. The most common approach worthy of reward was to evaluate the positive and negative impacts of Sir Ken's retirement. Examples might include an opportunity to shake-off its 'out-dated' Power culture, based on the founding family and replace it with one that is more Role or Task-based as the company expands nationwide. Possible negatives could include a loss of links to the original values of Morrisons which might make long-serving employees feel uncomfortable. The 'Evaluation' command word invites candidates to make a judgement. The expectation was that this judgement would assess the importance of Sir Ken to culture, or the impact of him stepping down. Good use of Morrisons current situation and plans would help candidates to achieve eight marks.

6 Assess the possible impacts on Morrisons' Corporate Culture of Sir Ken Morrison's decision to step down as Chairman.

Depending on what type of leader the new chairman is then it could have a large change. Ken Morrison was a paternalistic leader who believed in Morrisons as a family, if the new chairman is an ~~power~~ autocratic leader the whole business could change. At the moment Morrisons corporate culture is fresh food and ~~value of staff~~ ~~friendly environment~~, a new chairman may demotivate the workforce by being strict and not taking their points into view. However this still depends on what type of leader he will be. If he is also paternalistic there will not be a major change, but there still will be change as Ken Morrison was the 'father' of Morrisons and they may think the new chairman might try to be the same person. In the short term there will definitely be some kind of impact but

in the long term staff would get used to the different style and corporate culture may change all together. (Total for Question 6 = 8 marks)

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Examiner Comments

This response has a good grasp of what Corporate Culture is and goes on to discuss the Morrisons situation confidently. It was awarded seven marks. To achieve eight the candidate would need to make a stronger contextual conclusion that addresses the question directly.

**ResultsPlus**

Examiner Tip

The question is about Corporate Culture. A large number of candidates seemed not to understand what this concept is about, preferring to discuss marketing strategies or similar. The question is asking candidates to think about what affects culture and whether in this case the retirement of one person is likely to affect it. As it is an 'Evaluate' question the expectation was that candidates tried to make a judgement about whether Sir Ken's retirement would have an effect.



### Question 7 (a)

The question very specifically asked candidates to reference potential conflicts between socially responsible behaviour and profit-based objectives. Many did not do so, choosing to answer a general question about whether the Handsworth store should be opened. The phrasing of the question is directly lifted from the unit specifications and as such should be an area that candidates are prepared for. Good responses analysed the conflicts e.g. store expansion for profit and its conflict with the wishes of the local community and went on to discuss the impact that this conflict had on Morrisons' decision. Perceptive students identified that there need not be a conflict, with the plans creating employment in Handsworth. It should be noted that the 'conflict' (or lack of) had to be acknowledged in the response for it to be worthy of merit.

Level 4 Evaluation marks were gained by those candidates who made a judgement about the Handsworth store opening in light of the conflicts analysed previously. Some of the best answers argued that profit-based objectives addressed national shareholder wishes, whereas objections were more local and perhaps less significant as a result. The judgement had to acknowledge the conflicts between profit-based objectives and CSR, as clearly expressed in the question.

#### Section B

#### Decision-making report

Read the following evidence carefully.

Using ALL the evidence and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

- 7 In March 2009, Morrisons unveiled plans to open a new store in the Handsworth area of Birmingham. This was met by opposition from several stakeholder groups including small independent retailers concerned that they would be unable to compete with the new store, and local residents worried about increased traffic congestion in the area surrounding the proposed store.

\*(a) With reference to potential conflicts between socially responsible behaviour and profit-based objectives, evaluate whether Morrisons should go ahead with plans to open the Handsworth store.

(20)

Socially responsible behaviour in business terms means acting appropriately in a way that will please all stakeholders concerned with the businesses impact. It is difficult for businesses to find a balance between pleasing everyone and making profit, a goal for most businesses. Morrisons currently have a growth objective which focuses on increasing the firm's floor space and market penetration and the

new store in Handsworth could be considered apart of this corporate strategy. Firstly it could be argued that Morrison's have the right to open the new store politically and in terms of law and legislation. After all there market share (although part of an oligopoly) is only 12% compared to the likes of Tesco (31%). as a result there is no reason the competition commission should get involved therefore it should be down to Morrison's and the council. Morrison's should consider

the impacts on their brand identity and the public relations issues surrounding the opening. After all after their acquisition of Sainsbury and Somerfield stores many potential customers rejected them because they did not like the idea of the new stores, a similar result could occur.

~~As a location for a store in Birmingham area could be seen as a hot spot and potential success for Morrison's~~

As mentioned the opening of the store has caused opposition from local, small independent retailers. The implications of Morrison's opening a store nearby would be catastrophic due to the fact that economies of scale allows Morrison's to hit a much lower pricing strategy, as well as providing a larger range of products, putting these smaller firms in danger of bankruptcy. Many local residents will therefore argue that Morrison's are damaging the local economy and spoiling consumer choice, leading towards a less fair market. In opposition to this point Morrison's could argue that although they are larger, they are providing more choice and fairness to the market and becoming

an asset to the town, attracting more customers to visit Handsworth. Another point made by local residents was in complaint of the impacts the store would have on traffic congestion. A store of Morrison's size will ~~not~~ most likely increase congestion, which directly goes against the company's efforts to reduce its environmental impacts, for example they ~~only~~ try to source as much produce locally to avoid transportation emissions. However Morrison's do heavily

support public transport, meaning a much smaller impact on the environment and congestion. The choice of location is partly due to the company's attempts to move into a more southern market, with a lot of emphasis on locations like London and Birmingham. If the firm wishes to compete well with competitors, which have already acquired urban sites, they may need sites in locations like Handsworth despite the negative P.R and C.S.R ~~issues~~ issues.

In conclusion I personally think Morrison's should go ahead with the construction of the store. It is clear the company's organic growth strategy and market penetration emphasis require the introduction of stores in unutilized locations, such as Handsworth. Obviously there is the ~~drawback~~ social and ethical drawbacks of this move, but Morrison's appear to have tools in place to minimize disruption at all stages, ~~for~~ for example critical path analysis to minimize construction disruption and public transport to help ~~reduce~~ lower congestion in the ~~future~~ future. Birmingham area is also ~~very~~ likely to be highly profitable for a store which will provide a quick return



On the companies investment, freeing up capital which can be put to better use. Overall the company could handle the initial blow to its non corporate, wholesome image, but in the long term would benefit in profit and growth helping Morrisons achieve its objective to become more nationwide.



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#### Examiner Comments

This candidate has clearly answered the question in such a way it achieved 18 marks out of 20. The candidate systematically explains Morrisons profit-based objectives such as market penetration, whilst also analysing in depth the CSR/stakeholder issues, for example the impact of the new store on small traders in Handsworth. A particular area of strength is the clarity of the conclusion and the way the candidate links the overall judgement to Morrisons wider corporate objectives, whilst acknowledging the importance of Corporate Social Responsibility.



### ResultsPlus

#### Examiner Tip

The question has two clear parts, explicitly outlined in the question. Firstly, the candidate needed to refer to and analyse the potential conflicts between socially responsible behaviour and profit-based objectives. Secondly, they needed to then decide, considering these conflicts, whether Morrisons should open the new store. Better answers identified that there may not be a conflict and that profit-based objectives like opening new stores could lead to socially responsible results such as job creation. Far too many candidates thought the question was simply asking them to evaluate whether the store should be opened or not, using arguments that did not relate to Corporate Social Responsibility to justify the decision. This is not what the question requires.

The use of emboldened script in questions is intended to communicate important information about what is being examined. Candidates are urged to take note of this and tailor their responses accordingly. Failure to do this will place a severe limit on the marks achieved.

### Question 7 (b)

This question was intended to follow the trend started in the last series and to an extent in the sample assessment material, where a deliberately open-ended question aims to elicit a range of responses from candidates.

Once more candidates found the question accessible, with most being able to analyse at least one of the motives for expanding as Morrisons had announced in the pre-release material.

Good responses looked at a range of financial, non-financial, internal, and external factors affecting the decision, both negatives and positives. Financial could include Morrisons recent profit performance, while non-financial might include a new culture emanating from a more ambitious Chief Executive and Chairman.

Strong responses drew conclusions in the 'MOPS' framework, with reference to Morrisons Market, Objectives, Product/Service, Situation. For example, 'Morrisons operate in a fiercely competitive market and cannot afford to fall behind the other three major national supermarkets: Tesco, Sainsbury, Asda. Morrisons objectives of store growth reflect this and there is a sense that this expansion needs to be quick to be successful. Morrisons growth is helped by the acquisition of 38 Co-op stores which would only need conversion, as opposed to building from nothing...'

As even Ansoff and Porter are relevant tools to be used here, but centres are reminded that there will not be questions of this nature (30 marks) exclusively on these theorists. Some candidates made the error of exploring all four of Ansoff's generic strategies in the context of Morrisons - this was not what the question required.

There was also the feeling that many students felt that this was a question uniquely about Critical Path Analysis. There were numerous examples of intricate Network diagrams and full evaluations of what this showed. Although the findings of a CPA are relevant, they are only so in a wider context of other factors.

\*(b) Evaluate Morrisons' decision to open 48 new stores in one financial year.

(30)

Morrisons' decision to open so many stores in one year shows that their objective is growth & their strategy is Market penetration, according to Ansoff's Matrix, <sup>which is low risk.</sup> They are lowly geared, so this strategy is feasible, however they are entering a highly saturated market. They aim to compete with their rivals Tesco, Sainsbury's & Asda (Evidence F), all three have many more stores than

Morrisons', & have larger market shares. Morrisons have experience in Market penetration; they grew by acquisition in 2004 when it integrated horizontally, joining with Safeway. This success makes it even lower risk. 1 financial year is very short space of time; Morrisons must be very organised & efficient.

Evidence D shows it could take at least 51 weeks, to complete a store, using (Critical Path Analysis) CPA. This is without set-backs & not considering time to recruit & train staff; all of this happening <sup>in</sup> 48 instances. They need to have performed Market research,

to ensure all locations have a Market & the resources.

However there are other strategies Morrisons could undertake to achieve growth & gain Market share; Ansoff's Matrix shows Diversification is high risk, but Morrisons competitors all sell non-food products & all have higher market share. Morrisons does have some non-food products, but many more could bring a new Market. Research & development would make short-term costs high,

& stores would have to expand to accommodate the new products, but low-gearing again makes it feasible. Also, the 'Market Street' concept could be lost & the focus on Morrisons' vision doesn't fit, as this isn't selling food, ~~but~~ <sup>however</sup> & they also have no experience in non-food retail, despite selling petrol. However high risk strategy gives high return; Morrisons may have to change their food-specialist image to compete for a larger market.

They could also grow by Product development; less risky according to

Ansoff's Matrix; providing online shopping service. It's ~~exp~~ acceptable as it's been successful for Tesco's & Sainsbury's & feasible as they are lowly geared; it will give Morrisons an entirely new market also, making them accessible to those who are less able. However they may find it hard to replicate their 'Market Street' concept over the internet & would have to consider the rise in their carbon footprint.

Overall, I feel that Morrisons should



choose diversification, as it would have higher rewards if successful. Their vision could be altered to include non-food products & their 'Market ~~Street~~' concept adapted, along with their marketing <sup>lack of</sup> <sup>products</sup> ~~campaign~~. Non-food is the main service that is acting as a constraint to their growth, & although initial costs would be high, I feel they have the customer loyalty & trust to succeed.

(Total for Question 7 = 50 marks)



**ResultsPlus**

Examiner Comments

This response has been included as a cautionary one to candidates and centres. In previous reports it has been emphasised that Ansoff and Porter can be utilised in order to provide a framework for responses. Better candidates did this confidently. What the question does not require is that candidates assess all of Ansoff's generic strategies e.g. Product development and Diversification. This is what this candidate does and as a result they do not achieve the higher marks. The question explicitly asks candidates to evaluate the strategy of expansion only.



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Examiner Tip

This question is deliberately open-ended, providing candidates with the opportunity to Analyse and Evaluate by using a wide range of the 6BS04 unit specification. It is incumbent upon candidates to use their own judgement in applying a wide range of arguments in order to achieve the highest grades (itself part of the skill of Evaluation). This question was typically open-ended, with the intention being to give candidates to bring in a range of arguments for and against Morrisons plans. These would include Financial reasons, such as their recent profit performance, Market reasons such as the need to compete with the other three large national supermarkets, or other reasons such as a wish to become more geographically spread. The best answers drew a conclusion based on the 'MOPS' framework - Morrisons had to expand due to the competitive nature of the Market in which they operate. Their Objectives have been to expand since the company's decision to become a national player. The Product/Service they operate in (retailing) is fiercely competitive and demands them to be aggressive in order to prosper and their Situation, with a new Chairman and recent success despite the recession. These all point towards a need to expand. However, candidates who argued against, especially on the grounds of the speed of the expansion, also gained credit if they answered well.

There is some concern that some candidates are not fully comfortable with basic knowledge such as the calculation of Gross Profit Margins. The intention of this paper will be to give candidates accessible questions based on knowledge of specification content.

However, it was clear that many centres and candidates had undertaken a wide range of additional research into the case study business. This was evident from the quality of application in students answers. Candidates clearly understood the business, its context, and its recent history, and this enhanced their answers.

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