

Examiners' Report
June 2014

GCE Business Studies 6BS04 01

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Introduction

This was the first paper available to UK centres based on the pre-release featuring Greggs, the UK based bakery and baked goods retailer. This business has received a lot of press interest due to its rapid growth. It also gained specific interest when the UK government considered changing the VAT laws governing hot takeaway food. The pre-release material covered a wide range of specification areas, lending itself to a breadth of discussion areas for teachers and students to explore in lessons.

The paper followed the established format of shorter knowledge and application based questions at the start of section A, progressing to an evaluation question at the end of the first half of the paper. This section contained the main calculation question and as quantitative decision-making techniques so important in this unit, gave students an opportunity to demonstrate their numerical understanding early in the paper.

Section B, as ever, asked more open-ended questions intended to prompt students to explore broad issues of corporate strategy in their answers. The intention in both questions (7(a) and (b)) was to prompt candidates to make links across the pre-release material and the specification content, thus allowing a more in-depth evaluation of the business decisions in question.

Successful candidates in this paper:

- Stuck closely to the requirements of the question posed - there is a danger that with examinations based on pre-release material that candidates are tempted to answer questions that they practised before the examination, or had been prepared for by teachers.
- Answered in the context of Greggs and its markets. They were able to recognise the unique market in which Greggs operates – that of a national baker, competing largely with small, local chains or independent bakers.
- Made sure they had a sound understanding of the specification content so they could apply it confidently to the questions - this is particularly the case with the numerical/calculation question.

Less successful candidates in this paper:

- Did not show secure enough understanding of specification content and terminology. Specifically: 'Organic growth'; 'Diseconomies of scale'; 'Corporate Social Responsibility'; or 'Return on Capital Employed'. Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the examination.
- Did not read the wording of the question carefully enough, resulting in answers that related to a very different question. This was particularly the case in Section B, which although the nature of the questions demand wide-ranging responses, they still need to be relevant to the specific specification areas.

Question 1

This question returned to the major specification theme of Diseconomies of Scale. Candidates were simply asked to define the term - knowledge without an example was sufficient here to gain two marks, however a good example would help to lift the mark to two if the explanation was not clear enough.

1 What is meant by the term 'diseconomies of scale'? (See Additional Evidence 1, line 9)

Diseconomies of scale refers to rising long run average cost due to large scale of production.

This occasion they have made series of regional businesses without experiencing Diseconomies of scale.



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Examiner Comments

The candidate clearly defines Diseconomies of scale in the first sentence and the second sentence is not needed. The rising Average Cost linked to the scale of production makes this answer strong.



ResultsPlus
Examiner Tip

Define answers positively by describing what a term is. Many candidates referred to Diseconomies of Scale as the opposite of economies of scale. This is not sufficient to gain two marks.

Question 2

This question was specifically related to the Investment Appraisal technique of Payback. This should not be confused with terms of payment negotiated with suppliers, or the length of time needed to repay loans to a bank.

The question requires a clear definition of payback period, preferably in relation to future cash flows and/or investment appraisal.

2 What is meant by the term 'payback period'? (See Additional Evidence I, line 19)

This is the time taken for ^{Greggs} ~~a~~ to recover
cash
the ~~time~~ it spends on buying in capital
goods such as machinery. ~~The~~ Greggs has an
attractive payback period, which means that
their profits are high and they'll recover
the cash they spent soon.



ResultsPlus Examiner Comments

This response makes it clear that the technique refers to cash and it also links to the purpose of the investment i.e. capital goods. The answer is clear and precise and relates to the pre-release material.



ResultsPlus Examiner Tip

Although it is not necessary to give an example, or to relate answers to the pre-release in order to gain full marks, this can be a good insurance policy. The mark scheme can move a 'partial or vague' answer to 2 marks if the example used shows sufficient understanding of the concept to gain additional reward.

Question 3

This question asked candidates to reflect on the nature of Greggs' growth and how its strategy had been executed. It was referring to the opening of new stores in high street locations where vacant premises had become available due to the recession, and also its expansion into new areas such as motorway service stations and railway stations.

The question is asking for the specific benefits of organic growth, perhaps in comparison to external or internal growth.

- 3 Explain **one** benefit to Greggs of having a strategy of 'organic growth'. (See Additional Evidence I line 13)

Organic growth is where a business aims to grow through internal methods such as increased staff, products and retail outlets, this growth strategy can be slow.

The main benefit to Greggs of growing organically is the ability to maintain the 'family' culture on which it prides itself. Keeping this culture will ensure teamwork stays strong whereas takeovers or mergers can experience culture clashes which can affect teamwork severely.



ResultsPlus Examiner Comments

Many candidates wrote that organic growth, otherwise known as internal growth, must be financed internally through sources such as retained profit. This is not the defining characteristic of internal growth as it can be financed in a range of ways. The defining characteristic is that the growth is based on Greggs itself growing without the involvement of other businesses through mergers and takeovers. In other words it is opening its own stores at a pace determined by the management of the business. This candidate focuses on the growth allowing Greggs to maintain its family culture.



ResultsPlus Examiner Tip

Be careful to define key terms carefully, in this case 'organic growth'. The benefits of this approach are related to the degree of control and continuity that the business can enjoy through making their own decisions.

Question 4

Corporate culture is a key component of the specification and, in the case of Greggs a key feature of the business.

During expansion it can be difficult for businesses to maintain current, positive cultures. This question asked how important culture was as a factor when Greggs was expanding.

- 4 Explain **one** reason why Greggs' corporate culture could be important during its expansion.

Corporate culture is "the ways we do things around here"
Corporate ^{culture} ~~is~~ is important during Greggs expansion because culture is a motivator that motivate employee by making them believe in ~~the~~ same objectives. ~~It also motivate~~
As Greggs has a culture which is like a family business. The more powerful of it culture will lead to a higher productivity as staff are motivated like they are working for their own family.



ResultsPlus Examiner Comments

This question can be tackled from a range of angles. The most popular approach was for candidates to explain Greggs' 'family' culture and how this needed to be maintained during the expansion if they were to remain successful. This response links motivation provided by this culture to maintaining productivity as the business expands. An alternative approach would be to explain how the expansion of Greggs could destroy the current successful culture and lead to less successful commercial results for the business.



ResultsPlus Examiner Tip

Make sure that answers are applied to the business in question. Greggs' culture is largely defined by its history as a family baker, so try to include this as an example, even in the smaller, 4 mark questions.

Question 5

Question 5 was the quantitative element of the paper, requiring candidates to calculate a financial ratio and interpret this accurately. It was split into two sections, but candidates were expected to answer the question as two linked tasks related to the data provided. This was clear and candidates attempted this successfully.

Return on Capital Employed is a key ratio for candidates to use in interpreting a business's performance. It shows how effectively they use the investment into the business to generate profit. Business's such as Greggs which have shareholders are particularly interested in achieving a positive and growing figure year on year.

- 5 (a) Using Evidence B, calculate Greggs' Return on Capital Employed (ROCE) for 2010 and 2011.

(4)

Return on capital employed is the amount
or % of return investors get on their
investment into a business.

$$2010 = \frac{52523}{176227} \times 100 = 29.8\%$$

$$2011 = \frac{60500}{198383} \times 100 = 30.5\%$$

$$\text{ROCE} = \frac{\text{operating profit}}{\text{Capital employed}} \times 100$$

(b) Assuming the typical ROCE of Greggs' competitors is 10%, comment on the results of your calculations.

(4)

Greggs' investors are receiving a much higher return on their investment and those who have invested in Greggs' competitors. In 2011 they received 3 times the return that their competitors did. Greggs' ROCE is continuing to increase with an increase of 0.7% from 2010 to 2011. This shows Greggs' profitability is much higher than their competitors.



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Examiner Comments

This answer accurately completes the calculation and expresses the results with percentage signs included as is required. Although there is a description of the ratio and instructions on how it is calculated, this is not required to secure full marks. In the second section the candidate makes accurate comparative statements such as 'three times bigger' and '0.7%', which shows a sound interpretation of what has happened to the ratio and what this means to Greggs as a business.



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Examiner Tip

When using the results of calculations, such as ratios in this case, use the data that you have calculated and interpret this as part of your analysis. It will help your answers to be more precise and inform the analysis to a degree that is expected at this level.

Question 6

Human Resource Competiveness is an important area of the specification, encompassing the two main measures of Labour Turnover and Labour Productivity. It is particularly important to a business such as Greggs that has actively sought to improve these measures, but has faced many challenges from businesses in this and similar sectors.

Question 7 (a)

This question was about a very high profile planned change in government taxation policy. It asked students to suggest how this might impact on Greggs' corporate strategy overall. Many candidates had clearly spent time researching this thoroughly and as a result performed well in their responses.

Any change in taxation policy is a good example of an external factor to which a business can only react. Many candidates used the PEST analysis framework to assess its impact here. PEST analysis is not specifically in the specification for this unit, but where candidates used it accurately they gained reward.

In 2012, the UK Government considered applying VAT to hot takeaway food. This could be regarded as a political influence.

7 *(a) Assess the likely implications on Greggs' corporate strategy of applying VAT to hot takeaway food.

(20)

Greggs corporate strategy is a long term vision to be 'the best in bakery' and to offer their customers the 'best sandwiches'. Their corporate strategy is also likely to include remaining competitive with rivals such as Starbucks and supermarkets, and to expand their stores to 2,000 in the near future by organic growth, and to expand to new markets such as transport hubs and motorway service stations. The VAT imposed on hot food will offer potential opportunities and threats to Greggs. The threats will include having to either increase the prices of their hot food, such as their sausage rolls (cash cow), which ~~sold~~^{sell} 140 million per year. The increased

prices will be passed onto their consumers which may decrease demand due to Greggs reputation as cheap 'on the go' food. ~~This will conflict with~~
The other possibility is that Greggs will have to add the VAT onto their costs, thereby decreasing their profit margins. Both of these options will conflict with Greggs corporate strategy, as it may decrease competitiveness with rivals such as Tesco, who are already ^{ahead} ~~leading~~ in terms of cost leadership. It may damage Greggs reputation as being cheap and affordable, especially in the ~~current~~ current economic climate where real incomes of consumers are low, meaning they are unable to achieve being 'the best in bakery'. All these factors will hinder expansion and national coverage as Greggs will most likely have to incur the costs of the tax, decreasing availability of funds needed in order to expand, ~~however~~ ^{and affect} their corporate strategy. However, not all of Greggs food is hot, for example their sandwiches and healthy options,

Such as fruit pots. It is unlikely the VAT on hot food will decrease demand for these products, thereby allowing for different products to reach maturity on the product life cycle and produce as much revenue as their sausage rolls. This will allow for Greggs to reach their vision of producing the best sandwiches and allow continuing expansion, and market development of areas other than the high streets. It also offers an opportunity for Greggs to produce a PR campaign against the government imposing the 'pasty tax'.

This may boost brand awareness for Greggs and possibly increase sales for their products, ~~as many~~ ~~customers are suffering from a poor~~

Overall, the VAT is likely to have a negative effect on Greggs' corporate strategy due to decreased profit margins or subsequently rising prices and falling demand, hindering the chances of ~~expansion~~ rapid expansion and product/market development into Greggs coffee, and especially when inflation is high and incomes are falling.



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Examiner Comments

Again, the command word for this question is 'assess' and therefore candidates need to make a judgement based on a two-sided argument. In this case the two-sided argument was most likely to be about whether the tax change would or would not affect Greggs' corporate strategy of opening more stores and expanding in the UK. As an indirect tax, VAT could be 'absorbed' by Greggs, leaving the prices charged to customers the same, or passed on in a price increase. Many candidates picked up on this and evaluated effectively based on this line of approach. Better answers contextualised the effect by explaining how the proposed change would affect all businesses selling hot takeaway food and not just Greggs. Effective judgements often utilised theories such as Ansoff and Porter to suggest that if Greggs were to maintain a strategy based on cost leadership, the VAT increase could have a large effect, but if they continued with moving into new markets such as coffee shops, this would have less effect as VAT is already levied on these products.

It was not essential for candidates to express knowledge of the fact that the government policy was reversed – the key was that the theoretical implications of such a tax rise were fully discussed.



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Examiner Tip

Think of the choices that are open to a business in response to an external change. It is rare that they only have one option and in the case of Greggs, the choice could be linked to a wider discussion about the future course of their strategy. In questions such as these explore, all possibilities and where suitable use the tools offered by Ansoff and Porter to add precision to your answers.

Question 7 (b)

The potential clash between corporate objectives based on achieving profit for shareholders, and one of acting in a socially responsible way to benefit stakeholders, is a fundamental aspect of corporate strategy and a key feature of this unit. In the case of a business such as Greggs, which has aspects of its operations aimed at both objectives, this is a fertile area for exploration.

The question requires candidates to make a judgement about Greggs' expansion plans and how these might be affected by these competing objectives. In other words, are the concepts at odd with each other, or can they be reconciled successfully.

*** (b) Evaluate Greggs' expansion plans with reference to potential conflicts between profit-based objectives and socially responsible behaviour.**

(30)

Profit - based objective is basically increasing the profitability of the firm. Socially responsible behavior is the acceptance of the obligation for the society and comfortability of the employees, and simply ~~ethics~~ doing morally right trading.

In the additional evidence I suggests that the Greggs' financial performance is likely to benefit significantly for the continued expansion.

The example of a socially responsible behavior is the Greggs breakfast club, where they provide free healthy and nutritious food to the primary school ~~children~~ children in areas of particular social disadvantage.

There are a lot of conflicts between being socially responsible and increasing the profitability.

Greggs spend so much every day on providing the breakfast to the preschool kids, and the bread ~~in~~ is being provided by the Greggs bakery, instead ~~it~~, if those bread are put to the outlets, they could increase their profits. Thus, the breakfast club run by Greggs reduce the profitability.

Also, ~~being social~~ Greggs is socially responsible for the employees. They provide a lot of ~~frigo~~ fringe benefits to the employees to motivate and be responsible of them. Some of them include, pension benefits,

children vouchers, special card that gets you 50% off of some food items. Life assurance and many other incentives. All of these will add to the cost, thus will reduce the profitability. Thus both the points mention above would reduce expansion, as retained profits are being used for employee benefits and CSR projects.

For instance if in case Greggs bribe the government to establish a new shop in a restricted town this will mean increase profitability but not being socially responsible.

However, according to evidence B the profitability has increased from (NPM) 7.9% to 8.6% from 2010 to 2011. Thus, this mean even though they ~~are~~ continue to be socially responsibility, Greggs' profitability has increased, that will be easy for their expansion.

Being socially responsible, for example the breakfast club will improve the image of the business, that would encourage new investments. This way Greggs could expand its business. This would also increase sales through brand loyalty, that would help Greggs achieve higher market share.

Being socially responsible towards the employees, ~~would help~~ through providing fringe benefits would improve the productivity of the Greggs workforce that would ensure higher profitability, thus higher retained profits to expand.

Also, in ~~Extract A~~ Evidence A it says that it has opened 98 stores and is planning to open further 90, it proves to us that even with being socially responsible Greggs has maintained their profitability for expansion.

~~Also~~ Further more, the ^{impact from the} conflicts between being profitable and socially responsible for expansion, would depend on ~~how~~ to what extent Greggs used its retained profits for expansion, as it has more opportunities such as mergers, debentures and bank loans.

On the other hand, if Greggs does CSR projects just to improve its pro image, then Greggs no longer needs it, & as it has reached a vast number of customer, & and has pace to expand. Thus, this will depend on the corporate objectives of Greggs.

In conclusion, being profitable is important in the short run but being socially responsible will enable the Greggs to maintain the stability and assure their long-term position in the industry. This is very important and UK bakery industry has a lot of competitors, thus no CSR could bring great threats from the competitors.

that would ruin ~~it~~ Gregg's profitability in the long-run. Even though profit based objectives and social responsible behavior conflicts in the shortrun in the long run they need each other.



ResultsPlus Examiner Comments

This response fully explores the arguments that Gregg's is expanding for purely profit-based motives and uses examples to show how this may not be socially responsible. It goes on to discuss how social responsibility might depend on expansion, or at least complement it as the business grows. At all points the answer is in context - related to Gregg's, the pre-release material and the nature of the bakery and takeaway food market. The candidate also makes a distinction between the short-term and the long-term which is always a powerful method of evaluation.



ResultsPlus Examiner Tip

Try to make a distinction between the short-term and long-term where appropriate to the question when evaluating. The effect of a particular decision or strategy will rarely be the same immediately after it has been made compared to a year or two in the future. However, make sure you fully explain any distinction - this response does not add explanation as to why the two objectives 'need each other' in the long-term. Extra marks would have been achieved if it did so, particularly if the explanation brought something in to the argument from the Market, Objectives, Product or Situation (MOPS) that Gregg's operates in.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Make sure that they are fully aware of the content of the pre-release material and have a secure understanding of all the business terminology within it, particularly those that appear in the specification as well.
- Read the additional evidence carefully. By its nature it is intended to give you additional information and raise additional issues that are likely to be examined. As you will not have seen this information before the examination, carefully reading it at the start of the exam is time well spent.
- Practise writing in context. This means showing an understanding of the business and its wider situation: its market, objectives, products or services, and the situation it currently finds itself in. Simply writing 'Greggs' at this level is not sufficient; candidates need to show an understanding that it is a rapidly growing, popular business, which is expanding quickly through internal growth, but may be facing some problems along the way, particularly objections from stakeholders who question its effects on local bakeries. This is all evident in the case study, but understanding can be deepened through wider reading of the financial press and news articles to understand current developments.
- Aim to write balanced, evaluative answers to questions: 6, 7(a), 7(b) - this means writing two-sided answers with a conclusion that answers the question directly and brings in wider contextual points that supports the overall judgement.
- Practise time-management so that the last questions in particular can be given sufficient time to be answered in depth and detail. Together these questions are worth 62.5% of the paper's marks, so performance on these will have a big effect on a candidate's overall mark.
- Look for the command words in each question and structure their answers accordingly - this avoids writing answers that are either too short or too detailed, and should help with overall time management.
- Ensure that you are writing answers to the question posed: it will state clearly the perspective from which to answer e.g. stakeholders – answers clearly focused in this way are likely to achieve the higher level marks.
- Avoid quoting or referencing television programmes in written responses. Although these provide useful resources for classroom preparation, they should not be seen as the primary source of information for students; this will always be the pre-release material and the small quantity of unseen stimulus material published in the examination paper.

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