

Examiners' Report
June 2016

GCE Business Studies 6BS04 01

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June 2016

Publications Code 6BS04_01_1606_ER

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Introduction

This paper was based on the pre-release material featuring New Balance, the athletic apparel business. This business is well known to a range of people, and in particular teenagers who may own clothing, and particularly footwear made by this business. The pre-release material covered a wide range of specification areas, lending itself to a breadth of discussion areas for teachers and candidates 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 with quantitative decision-making techniques so important in this unit, it gave candidates an opportunity to demonstrate their numerical understanding early on in the paper.

Section B, as ever, asked more open-ended questions intended to prompt candidates to explore broad issues of corporate strategy in their answers. The intention in both questions 7(a) and 7(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.

More 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, candidates are tempted to answer questions that they practised before the examination, or had been prepared for by teachers.

Candidates also answered in the context of Center Parcs and its markets and they were able to recognise the nature of Center Parcs as an established market leader, expanding its portfolio by opening a new holiday park in Woburn.

The more successful candidates also 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 a secure enough understanding of specification content and terminology. Specifically: 'Acid test ratio', 'Profitability', and 'Special Order decisions'. Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the examination.

Less successful candidates also tended to 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. 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 focused on 'Global marketing' and required a simple definition. It draws on terms included in the additional evidence at the beginning of the question paper. 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.

This question required candidates to use their knowledge of marketing on a global scale. Knowledge is the assessment objective being examined here.

1 What is meant by the term 'Global Marketing'? (Additional Evidence 1, line number 6)

Global marketing is advertising a global scale across multiple countries that the company operates in. For NB that could be the cricket player Dale Steyn advertising cricket footwear.



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Examiner Comments

This response clearly explained that the marketing occurs across a range of multiple centres – making it clear that the marketing is indeed global. Although the definition could be improved, the response gained two marks because it uses an example of a new market that New Balance are promoting their products within.



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Examiner Tip

If you are unsure about the quality of your definition, use an example from either the pre-release business or another example in order to boost your chances of scoring full marks.

Question 2

This was a short question on another large section of the specification – corporate social responsibility. As with the previous question, it draws on terms included in the additional evidence at the beginning of the question paper. Again, strong responses without examples were sufficient to achieve the full marks.

The question focuses on the definition of corporate social responsibility and what this means for a business such as New Balance. The question is intended to invite a precise definition.

2 What is meant by 'Corporate Social Responsibility'?

(Additional Evidence 1, line number 8)

Corporate social responsibility is when a business is aware of the impact they have on the community and environment. New Balance showed ethical behaviour by installing solar panels on their factory roof.



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Examiner Comments

This question can be answered in a vague way without careful consideration. A definition needs to refer to the wider impact of a business' activities. In this case, the impact on the community and environment. This response uses an example of ethical behaviour, which is valid to secure the marks, although in this case it would not be necessary due to the clarity of the first part of the answer.



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Examiner Tip

As with Question 1, be precise in your definition. If you have time, add an accurate example to secure the second mark.

Question 3

This question required a very clear link between the 'runnovation' marketing campaign and New Balance's profitability. There needed to be a clear link between the two in order to score four marks. Profitability is a specification area that is discussed in the financial performance aspect of the course.

Question 4

New Balance are clear in their mission statement that wider concerns for stakeholders are important in their business model. The word 'responsible' is particularly used, which intends to convey an image of corporate social responsibility.

Stronger answers were clear about what a mission statement was and what the main features of New Balance's mission statement were (as outlined in evidence C). The best answers identified that the installation of solar panels by New Balance was at least partly about environmental concerns, which could then be linked to their specific 'responsible' operation in the mission.

Question 5

This question was a straightforward ratio question on liquidity. Candidates were required to calculate two acid test ratios in part (a) and then comment on these ratios in part (b) in terms of what the changes in values mean and how they might help us to understand New Balance UK's performance over 2 years.

5 (a) Using Evidence D, calculate New Balance UK's Acid Test Ratio for 2012 and 2013.

(4)

$$\text{Acid test ratio} = \frac{(\text{current assets} - \text{stock})}{\text{current liabilities}}$$

<u>2012</u>	<u>2013</u>
$\frac{20,014,948 - 8,611,341}{13,913,126}$	$\frac{27,901,319 - 12,137,301}{27,173,413}$
$= \frac{11,403,607}{13,913,126}$	$= \frac{15,764,018}{27,173,413}$
$= 0.819629 \dots$	$= 0.5801265 \dots$
$= 0.82$	$= 0.58$

(b) Comment on the results of your calculations in 5(a).

(4)

In 2012, New Balance's Acid Test Ratio was 0.82. However, in 2013, their Acid Test Ratio fell to 0.58. This is a decline of 0.24. As a result, it is clearly that New Balance's liquidity position is poor. However, this may be because New Balance UK invested in 208 solar panels at their Flimby factory ^{in 2013.} This costly investment would mean that cash outflow was significantly larger than cash inflow. However, this investment will probably improve New Balance's liquidity in the long-term as their energy costs will fall. As a result, although New Balance's liquidity was a problem in 2013, it is likely that it will improve. (Total for Question 5 = 8 marks)



ResultsPlus Examiner Comments

This response calculates the ratios accurately in part (a) and importantly, the candidate has labelled the years correctly. In this instance answers are written to 1 or 2 decimal places, however, accurate calculations to whole numbers would still allow full marks to be achieved.

In part (b) the candidate makes statements about the size of the change e.g. 0.24 and then goes on to analyse why this might have occurred with reference to the wider financial information which appears in the pre-release stimulus material. The best comments focused clearly on liquidity and the importance of stock in the analysis of the results.



ResultsPlus Examiner Tip

In order to comment effectively on changes in figures, make sure you refer to your calculations and the results of these. If possible, calculate how much a figure or value has changed to add depth to the analysis.

Question 6

Boston Matrix is a key qualitative technique used by businesses in assessing marketing strategy. While it is important for candidates to be able to quote and understand the key features of this tool, it is vital for them to be able to evaluate the uses and limitations of this tool, particularly in relation to the wider strategy of the business.

Boston Matrix can be used by businesses to analyse their current product portfolio by considering the market share and the market growth of these products. As New Balance sell a range of products in different markets, the suggestion is that this could be used to analyse how to market each product. For example, how can the revenues of a 'cash cow' be used to support a product in a different category?

- 6 Assess the likely value of the Boston Consulting Group (Boston) Matrix to New Balance's corporate planning.

(10)

Boston Matrix refers to dividing a range of products according to the Market share and Growth -

Stars are the products with high market share and high market growth



and needs very high investments.

Question marks are the products with low market share and high market growth needs a sustain investment to survive.

Cash cows are products with high market share and low market growth. very little investments needed. But these products are fully established in the Mkt.

Dogs are products with both low market share and market growth these products should be banned or not use. there is no demand and value.

New Balance products falls to cash cows as no need much investment but the products are fully established in the market but giving a unique component or a feature the product can own the market. "We get better quality leather from it tanneries," says the factory manager. People demand for high quality products and value for what they pay. So buy using high quality ~~to~~ leather could attract more consumers.

(Total for Question 6 = 10 marks)

Quis Navarro, product manager at New Balance. In 2009 interview he said: "Grey doesn't really stand out so that it allows you to. We are not ~~showy brand~~ going to be a showy brand, we're going to be the brand that allows you to be you." This about their 574s New Balance trainer. And was wowed by Pharrell and Rihanna where 900% sales increase gradually.

cash cow products @ just need a small glimpse so that it could hit the top.

However NB in 1990s ran an "endorsed by no one campaign" believing that the behaviour of star athletes demonstrated attitudes and behaviours that we felt did

not represent our brand,
and also people demand for very attractive
shoes with highlighting colours where NB didn't
have. They didn't use ~~dark~~ dark highlighting
colours. ~~so~~ so their profits may reduce.
Though they didn't use eye catching colours their sales
gradually grew. And is the second most popular
trainer brand on the site behind Nike.



ResultsPlus Examiner Comments

This answer shows good analysis and some evaluation. The candidate explains the benefits of the Boston Matrix, and it is clearly applied to the context with reference to New Balance products. They are also clear about how this information might be used e.g. to inform future marketing plans. The candidate also explains potential weaknesses in the model for New Balance, again in context. The response did not gain ten marks because there was not overall judgement offered about the overall importance of Boston Matrix to New Balance.



ResultsPlus Examiner Tip

Make sure that you answer the question as posed. For example, this question asks to 'assess the likely value', therefore your judgement needs to consider overall what the likely value is to New Balance, supported by reasons that are linked to this specific business and the context in which it operates.

Question 7 (a)

The success of New Balance UK's Flimby factory is a big feature of this examination's pre-release material. The success of this factory and its unusual nature in terms of New Balance's competitors mainly manufacturing in Asia, make this an interesting subject for discussion. With New Balance expanding its retail outlets, the discussion about the degree to which their UK factory should supply independent UK retailers or its own outlets opened up as a source of discussion. This question invited an assessment of the financial and non-financial consideration that a manager(s) would need to consider when accepting unusual/'special' orders.

The question invites customers to discuss factors such as capacity, motivation, conflict of interest and social responsibility, along with the uncertainty regarding the financial aspects of the order.

Decision-making report

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

Time allowed (55 minutes).

- *7 In the summer of 2014, the New Balance factory in Flimby received a large order for its trainers from one of the UK's largest sports clothing retailers. The price offered by the retailer for this special order was lower than the price previously accepted by New Balance.

- (a) Assess whether the manager of the Flimby factory should accept this special order.

→ capacity
→ relationship
→ ability

(20)

Contribution is the amount of money produced (profit) which can be put towards ~~paying~~ the fixed costs of New Balance's business operation.

The special order needs to be evaluated as it can provide both advantages and disadvantages to New Balance. New Balance has high fixed costs of production compared to its sales in the Flimby factory, this is shown by Evidence D. Therefore depending upon the size and price offered for the special order New Balance can put the revenue gained towards covering its high ~~costs~~ fixed costs. The order should be accepted if profit

is produced as it can help cover fixed costs.

On the other hand the profit gained also has to be weighed against New Balance's capacity and ability to meet the order. New Balance ~~already~~ has already seen a 900% increase in its core product, the STU trainers on ASOS. Therefore production has ~~not~~ already increased ~~and~~ producing extra trainers for the UK retailer may not be possible. ~~There~~ ~~is~~ ~~no~~ ~~liberty~~ that also extra materials will have to be imported which, in New Balance's case come from around the globe increasing production time.

~~On the other hand~~ therefore New Balance has to consider if it has the required production capacity, although New Balance ~~is~~ ~~not~~ ~~has~~ ~~not~~ built a new warehouse therefore production capacity may be large enough now to respond to larger demand.

~~Moreover~~ ^{Also} New Balance corporate strategy involves expanding into ~~the~~ ^{new} markets with a specific aim of increasing UK market share. This ~~order~~ ^{order} could help New Balance establish a new relationship with a large UK ~~store~~ ^{distributor}. This new relationship could increase sales in the UK and therefore meeting UK growth objectives.

On the other hand accepting the special order could have a negative impact with its other current retailers. The special order is ~~at a lower~~ ^{at a lower} ~~price~~.

price than its previously accepted order thus could set a bad precedent, ^{it could cause} ~~it could~~ decrease other UK retailers to demand the lower price. Therefore causing a race to the bottom and thereby reduce prices for New Balance trainers. This directly conflicts New Balance's premium pricing strategy as it aims to sell its products for a higher price than Nike and Adidas due to its added value with a wide range of materials and quality. Decreasing profit margins as ~~other~~ ^{other} retailers purchase for lower prices losing its competitive advantage of higher prices.

The special order ^{ultimately} ~~ultimately~~ depends on the price of the order but ^{ultimately} ~~ultimately~~ if it covers the variable costs of the production ^{and} ~~and~~ makes profit then this can help cover fixed costs.

On the other hand New Balance may overwork its labour force in Elmby. It has already improved productivity by 35%. therefore ^{leading} ~~the~~ the special order ^{will mean} ~~may lead~~ productivity will have to be further increased which may demotivate workers ^{leading} ~~leading~~ to lower productivity and higher average costs, decreasing profit margins.

This may be offset by increasing robotics in production, which New Balance has already done, ^{in order} ~~in order~~ to meet the special order. This will mean more investment from Shareholders or retained profit to purchase equipment.

In conclusion, the price or quantity of the special order is unknown and therefore it cannot be said for certain if the order is worth taking. However the profit generated and the new relationship

formed needs to be balanced against the actual feasibility of producing more trainers.



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Examiner Comments

This response achieved full marks because the candidate makes a fluent argument that discusses qualitative and quantitative factors in the decision, whilst ensuring that the pre-release material is used to provide context. After explaining in detail both sides of the argument, the candidate decided that an overall decision is not possible because there is insufficient financial data to calculate the contribution to costs that the order may make.



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Examiner Tip

It is a powerful evaluative tool to challenge or question the data that is provided in pre-release material or the question stem. However, if you are to do so, make sure the information is definitely missing or unclear. In this case, it was left uncertain as to whether the 'contribution' of the order would have been positive – a crucial piece of information in any special order decision.

Question 7 (b)

The pre-release material outlined a series of decisions New Balance have taken recently regarding the products and markets in which they operate. This context provides a rich opportunity to use Ansoff's matrix as a tool for assessing decisions and applying this key decision-making technique to New Balance's overall strategy.

This question requires candidates to make a judgement about the importance of market development, specifically in the context of the term in Ansoff's matrix. Stronger responses identified this link, whereas others discussed market development in very broad terms and did not relate this to other generic Ansoff strategies.

(b) Evaluate the importance of Market Development in Ansoff's Matrix to New Balance's overall Corporate Strategy.

(30)

Ansoff Matrix could be identified as a growth strategy which would help a business identify in whether to sell in new or existing products in new or existing markets as a means of growth.

Market development thereby can be identified as a growth strategy in which they would sell an existing product into a new market. For example it could be identified by New Balance considering to enter the South Africa or Australia.

One likely importance of the market development strategy in Ansoff Matrix to their overall corporate strategy would be that it would help NB to achieve their objective of becoming closer to being no. 1 in the global market. Thus as they enter new markets, it could increase their brand recognition and market share and help them as a strategy to become closer to their objective.

Further, it could also be help important as a means of NB now being able to spread their risks over to a new market. This could thereby enable them to sustain their growth and also help them survive in the market and not be outcompeted by competing firms such as Nike and Adidas.

Another importance would be that since they would be entering a new market and producing an existing product, it could enable them to be able to access the market with more ease as they would be producing a product in which they have experience and knowledge of producing and since they are a fashionable brand entering into one of the emerging economies such as the Asian countries, they could possibly benefit from being able to see higher returns as their products could be the first moving piece in that market.

Lastly another importance of market development in relation to the overall corporate strategy of NB would be that if they have the first mover advantage into new emerging markets, it could enable them with a competitive advantage over their rival firms such as Nike and Adidas as they would have been able to capture the market first and could thus manipulate the market well and earn a higher market share of the new market and could enable it to be one of their corporate strategies to grow further in the industry and expand their recognition and market share.

However, as much as market development in emerging markets help NB and enable it to compromise with their overall corporate strategy, it could also be at a risk that they would be entering a new market of which they may have no experience or knowledge about. Thus it could have a ~~negative~~ adverse impact on one of their strategies as they would be quite uncertain about the outcome and success of the business in the market.

Furthermore, the market development strategy would likely distance NB on their core competency of producing high quality shoes since they would now be focused on ~~the~~ the quantity of shoes that they produce. This if their main focus now turns to producing more products in the new market, it could hinder the quality of the shoes and thus lose their competitive edge over rival firms.

Also, since NB does not compete on price and shoe they do charge a premium price on the shoes they produce, it may have negative impacts if they enter emerging economies due to in times of recession in the economy, consumers in these markets may not be as willing to pay such a high price and thereby they may see a fall in their sales and revenue and it could thus have negative impacts on the market share.

Another disadvantage could be that even though they may have the first mover advantage, the fact that NB ^{is} not competing on price and rival firms such as Nike have low cost production facilities would enable these rival firms to capture the market with max. cost and thereby since NB charges higher prices as their costs are high, they may ~~also~~ once again be at a loss of market share.

Lastly, NB entering a new market could have an impact on their corporate strategy and negatively since the mission statement is interrelated, and if NB enters ~~to~~ a new market and sets up facilities there, it could have an impact on the employees working in the ~~factory~~ factory in Flimby (which is the largest employer for NB) and thus it could

conflict with their corporate strategy, since they would not be fulfilling their mission statement.

Therefore, in conclusion, the extent to which NB could see a high value and importance of undertaking a market development strategy would ideally have benefits as it could enable them to grow and expand into new markets which would bring them closer to their objective of being no. 1 as market share increases, but it also would have adverse impacts as new NB would ideally have little or no experience in the new markets and since they are a fashionable brand producing in a dynamic market, taste and preferences of UCOY is different and they are afraid that they would be producing an existing product in a new market may not be successful as a consumer taste and preferences vary.



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Examiner Comments

This candidate has a clear understanding of the main features of Ansoff's Matrix and is able to apply the strategies, such as expansion into the cricket market in South Africa, to the New Balance example. The response is well-balanced, applied clearly, and looks at the importance of market development from a range of perspectives. It does not achieve over 26 marks because there is not a developed judgement, which uses understanding of New Balances market, objectives, products, or situation to make an informed judgement.



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Examiner Tip

Once you have written a clear extended answer, which sticks to the question and specification area closely, and is applied to the business in question, make sure you answer the question with a judgement. This judgement should use one or two important reasons from the business or wider context that leads you to your decision. A simple summary or list of your previous argument is not sufficient in this instance.

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, careful reading of 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 'New Balance' at this level is not sufficient; candidates need to show an understanding that it is a multinational, established business that has seen a sudden increase in demand for its products due to their endorsement by celebrities (which was not paid for by New Balance). 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) and 7(b) – this means writing two-sided answers with a conclusion that answers the question directly and brings in wider contextual points that support 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. The question will state clearly the perspective from which to answer e.g. market penetration in Ansoff's matrix. Answers clearly focused in this way are likely to achieve the higher level marks.

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