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# **GCE MARKING SCHEME**

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**SUMMER 2016**

**BUSINESS STUDIES - BS3  
1083/01**

## **INTRODUCTION**

This marking scheme was used by WJEC for the 2016 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

## **GENERAL MARKING GUIDANCE**

It should be remembered that the candidates are writing under examination conditions and credit should be given for what the candidate writes rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for the less than perfect answer it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

### **Levels of Response**

Questions are awarded marks on the basis of the levels of response. The purpose of this is to award the so-called higher level skills, particularly of analysis and evaluation. In practice, the good Business Studies candidate is likely to demonstrate a good grasp of the information presented to him/her, he/she will be able to weigh this up in the light of his/her theoretical understanding of the subject and will be able to suggest appropriate strategies to deal with the situation. Candidates who have a deficiency in their theoretical understanding or who are unable to analyse properly a situation, are unlikely to be able to synthesise or evaluate in a meaningful way.

In marking scripts reference should be made to the relevant part of the mark scheme and the candidate should be awarded a mark that corresponds to the highest level that he/she has demonstrated.

### **Quality of written communication**

The QWC is assessed in question 4 and 5.

**GCE Business Studies**

**SUMMER 2016 MARK SCHEME**

Question	Answer	Mark allocation	Assessment objective
1.	<p><b>Explain the advantages and disadvantages to Associated British Foods plc of operating as a diversified group of businesses (line 5).</b></p> <p><b>Level 1</b> The candidate shows some understanding of the advantages and/or disadvantages of operating as a diversified group of businesses.</p> <p><b>Level 2</b> The candidate shows good understanding of the advantages and/ or disadvantages of operating as a diversified group of businesses.</p> <p><b>Level 3</b> The candidate shows excellent understanding of the advantages and disadvantages of operating as a diversified group of businesses.</p> <p>Answers might include the following:</p> <p><b>Advantages</b></p> <p>Each business is part of the larger organisation. The company operates a principle of 'value together'. Individual businesses collaborate with each other. There is central support.</p> <p>There are economies of scale including managerial, financial, technical and purchasing.</p> <p>Businesses benefit from sharing knowledge, skills and best practice.</p> <p>Joint investments, which would otherwise be unprofitable, are possible.</p> <p>Introductions in new countries and markets can be made, there can be help with hiring and developing people. Back-office services can be provided and office space shared.</p> <p>There is a spreading of risks, if one business is not doing so well the others can support it.</p> <p><b>Disadvantages</b></p> <p>If one business is doing badly it may have a negative effect on the other businesses. This is particularly the case with sugar where sales and profits have fallen.</p> <p>Some of the other businesses may be held back through lack of investment, since investment will be shared throughout the business.</p> <p>If something damages the reputation of one part of the business it might affect the reputation of the rest of the business.</p> <p>Such a large organisation may suffer from diseconomies of scale and lack of control.</p> <p>There is a potential for a clash of cultures.</p> <p>Any other valid response.</p>	<p><b>10</b></p> <p>1-3</p> <p>4-7</p> <p>8-10</p>	<p>AO1 4 AO2 4 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
2.	<p><b>Analyse and evaluate the financial performance of Associated British Foods plc.</b></p> <p><b>Level 1</b> The candidate attempts some analysis/evaluation of the financial performance of Associated British Foods plc.</p> <p><b>Level 2</b> The candidate makes a good attempt to analyse/evaluate the financial performance of Associated British Foods plc.</p> <p><b>Level 3</b> The candidate makes a detailed and well-balanced analysis and evaluation of the financial performance of Associated British Foods plc.</p>	<p><b>14</b></p> <p>1-4</p> <p>5-9</p> <p>10-14</p>	<p>AO1 2</p> <p>AO2 2</p> <p>AO3 4</p> <p>AO4 6</p>

	2014	2013
Gross Profit Margin	---	---
Net Profit Margin	$1080/12943 \times 100 =$ <b>8.34%</b>	$1088/13315 \times 100 =$ <b>8.17%</b>
ROCE 1: fixed + current assets ( <i>this ratio is acceptable but not recommended</i> )	$1080/(6846 + 3626) \times 100 =$ <b>10.31%</b>	$1088/(6950 + 3424) \times 100 =$ <b>10.49%</b>
ROCE 2: shareholders' funds + long term liabilities ( <i>this is the recommended ratio</i> )	$1080/(6753 + 1035) \times 100 =$ <b>13.87%</b>	$1088/(6519 + 1329) \times 100 =$ <b>13.86%</b>
RONA ( <i>this is acceptable as an alternative to ROCE but is not recommended</i> )	$1080/6753 \times 100 =$ <b>15.99%</b>	$1088/6519 \times 100 =$ <b>16.69%</b>
Current ratio	$3626/2684 =$ <b>1.35:1</b>	$3424/2526 =$ <b>1.36:1</b>
Acid test ratio	$1886/2684 =$ <b>0.70:1</b>	$1731/2526 =$ <b>0.69:1</b>
Gearing 1: long-term liabilities/ shareholders' funds + long-term liabilities ( <i>this is the recommended ratio – N.B. the ideal is 50%</i> )	$1035/(6753 + 1035) \times 100 =$ <b>13.29%</b>	$1329/(6519 + 1329) \times 100 =$ <b>16.93%</b>
Gearing 2: long term liabilities/ shareholders' funds ( <i>this ratio is acceptable but is not recommended – N.B. the ideal here is 100%</i> )	$1035/6753 \times 100 =$ <b>15.33%</b>	$1329/6519 \times 100 =$ <b>20.39%</b>

<p>The gross profit margin cannot be determined as no separate information has been given about the cost of sales.</p> <p>The net profit margin has improved slightly from 8.17% to 8.34% which is encouraging. It might be noted that the profit margins vary considerably between the different segments (see below).</p> <p>ROCE is virtually unchanged (2014 = 13.87%). Considering the conglomerate nature of the business and the fact that operating profits vary considerably across the segments this is probably quite a good return. It is much higher than current interest rates and represents a satisfactory return on investment.</p> <p>The current ratio is stable (2014 = 1.35:1). This is below what is usually considered to be ideal, but, given the size of the business it probably does not indicate short-term cash-flow problems. It just indicates that they are rather slow to pay their suppliers.</p>		
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	<p>The Acid test ratio is also stable (2014 = 0.70:1) and is also below the ideal of 1:1. Once again this may not be an indicator of liquidity problems.</p> <p>The gearing ratio has fallen slightly and is anyway very low. The business is not greatly reliant on borrowings in order to finance its operations. This is a healthy situation but may mean that it is missing the opportunity to expand the business.</p> <p>Overall, the business is in a healthy financial state. The fall in operating profit for the sugar business is a cause for concern but other segments, particularly retail, are performing well. Candidates are not expected to analyse the figures regarding the different segments but if they do they should be credited. (NB full marks can be attained without analysis of the individual segments) The results are as follows:</p> <table border="1" data-bbox="301 757 1150 1303"> <thead> <tr> <th data-bbox="301 757 507 869" rowspan="2">Operating segments</th> <th colspan="2" data-bbox="507 757 1150 869">Net Profit Margin</th> </tr> <tr> <th data-bbox="507 869 831 936">2014</th> <th data-bbox="831 869 1150 936">2013</th> </tr> </thead> <tbody> <tr> <td data-bbox="301 936 507 1010">Grocery</td> <td data-bbox="507 936 831 1010">269/3337x100=8.06%</td> <td data-bbox="831 936 1150 1010">224/3568x100=6.28%</td> </tr> <tr> <td data-bbox="301 1010 507 1084">Sugar</td> <td data-bbox="507 1010 831 1084">189/2083x100=9.07%</td> <td data-bbox="831 1010 1150 1084">434/2677x100=16.21%</td> </tr> <tr> <td data-bbox="301 1084 507 1158">Agriculture</td> <td data-bbox="507 1084 831 1158">50/1312x100=3.81%</td> <td data-bbox="831 1084 1150 1158">47/1410x100=3.33%</td> </tr> <tr> <td data-bbox="301 1158 507 1232">Ingredients</td> <td data-bbox="507 1158 831 1232">41/1261x100=3.25%</td> <td data-bbox="831 1158 1150 1232">5/1360x100=0.37%</td> </tr> <tr> <td data-bbox="301 1232 507 1303">Retail</td> <td data-bbox="507 1232 831 1303">662/4950x100=13.37%</td> <td data-bbox="831 1232 1150 1303">513/4273x100=12.01%</td> </tr> </tbody> </table> <p>Apart from sugar the margins for all the segments have increased.</p> <p>Ingredients are the least profitable (although the margin has improved considerably from 0.37% to 3.25%).</p> <p>Retail is by far the most profitable rising from 12.01% to 13.37%.</p> <p>The net profit margin on sugar has fallen considerably but is still reasonably healthy at 9.07%.</p>	Operating segments	Net Profit Margin		2014	2013	Grocery	269/3337x100=8.06%	224/3568x100=6.28%	Sugar	189/2083x100=9.07%	434/2677x100=16.21%	Agriculture	50/1312x100=3.81%	47/1410x100=3.33%	Ingredients	41/1261x100=3.25%	5/1360x100=0.37%	Retail	662/4950x100=13.37%	513/4273x100=12.01%		
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3.	<p><b>With the aid of Porter's five forces framework analyse and evaluate the current position of Primark.</b></p> <p><b>Level 1</b> The candidate attempts to analyse/evaluate the current position of Primark with some use of Porter's five forces.</p> <p><b>Level 2</b> The candidate provides a good analysis/evaluation of the current position of Primark using Porter's five forces.</p> <p><b>Level 3</b> The candidate provides an excellent analysis/evaluation of the current position of Primark with good use of Porter's five forces.</p> <p>Answers might include the following:</p> <p>Diagram showing Porter's five forces.</p> <p>Porter's five forces are as follows: the bargaining power of suppliers and buyers, the threats of new entrants and substitute products and the intensity of rivalry within the industry.</p> <p>The bargaining power of suppliers: Primark is a large business and it has a great deal of power over its suppliers. The threat of moving its business elsewhere is likely to be taken very seriously by all of its suppliers. For Primark this is a strong position to be in.</p> <p>The bargaining power of buyers: there is quite a lot of competition in the clothing retail market and this give buyers considerable power. However, Primark differentiates itself by offering its customers a wide range of products at very competitive prices (Primark's USP). By doing this it is able to maintain customer loyalty.</p> <p>The threat of new entrants: in theory it should not be too difficult to set up a business to rival Primark, however, due to Primark's size it is able to take advantage of economies of scale, which a new entrant would not have. For this reason Primark may not be too worried about new entrants. On the other hand, supermarkets, which used not to sell clothes, are now offering a competitive range of clothing that could, potentially, eat into Primark's market. Also more and more people are shopping online, which again may impact on Primark's sales.</p> <p>The threat of substitute products: in a broad sense there are no substitutes for clothing. However, there are plenty of substitutes for the particular garments that Primark retails. Nevertheless, Primark's USP helps it to maintain and increase its market share.</p> <p>There is quite intense rivalry within the clothing market and Primark will need to continue to innovate and provide a range of attractive and inexpensive clothes and accessories if it is to continue to be successful.</p> <p>Overall, Porter's five forces indicate that Primark is in a strong position but that it cannot afford to be complacent as competitive rivalry increases and new entrants attempt to eat into its market share.</p> <p>Give benefit of doubt for using examples from ABF.</p>	<p><b>12</b></p> <p>1-4</p> <p>5-8</p> <p>9-12</p>	<p>AO1 2</p> <p>AO2 2</p> <p>AO3 4</p> <p>AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
4.	<p><b>Evaluate the impact on Primark’s stakeholders of having its products made in developing countries.</b></p> <p><b>Level 1</b> The candidate makes some attempt to analyse the impact on Primark’s stakeholders of having their products made in developing countries.</p> <p><b>Level 2</b> The candidate makes a good attempt to analyse/evaluate the impact on Primark’s stakeholders of having their products made in developing countries.</p> <p><b>Level 3</b> The candidate presents a well-balanced analysis and evaluation of the impact on Primark’s stakeholders of having their products made in developing countries.</p> <p>Responses might include the following:</p> <p><b>Positive impacts:</b></p> <p>Consumers in Britain are able to purchase fashionable, well-made goods at very economical prices.</p> <p>Employees: Primark creates thousands of jobs for people in developing countries.</p> <p>In general, multinational companies pay higher wages than local businesses. The incomes that the workers receive are spent in the local economy creating more jobs and wealth.</p> <p>Multinational companies train the local workers in new skills which will benefit them in the long-run.</p> <p>Managers will benefit from having well-paid jobs.</p> <p>Suppliers to the factories in the developing countries will benefit.</p> <p>Governments benefit from the taxes paid by the business.</p> <p>Local communities can benefit from having jobs.</p> <p>Shareholders will benefit from increased profits due to the low costs of production.</p> <p><b>Negative impacts:</b></p> <p>Customers may suffer if small businesses go out of business because they cannot compete with Primark: customers have less choice and high streets become homogenised.</p> <p>Many jobs have been lost in Britain and other advanced economies.</p> <p>Workers in countries like India are paid far less than workers in developed countries.</p> <p>Local communities in developing countries may suffer because health and safety tends to be less of an issue in developing countries and the workforce are sometimes victims of events such as the one that occurred in the Rana Plaza disaster in Bangladesh in April 2013. Pressure groups may be concerned about poor conditions in some countries.</p> <p>It affects the UK Government due to the impact on the balance of payments.</p> <p>Any other valid response.</p> <p>Give benefit of doubt for using examples from ABF.</p>	<p><b>12</b></p> <p>1-4</p> <p>5-8</p> <p>9-12</p>	<p>AO1 2</p> <p>AO2 2</p> <p>AO3 4</p> <p>AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
5.	<p><b>Assess Primark’s decision to increase the number of its overseas stores</b></p> <p><b>Level 1</b> The candidate makes some attempt to analyse/evaluate Primark’s decision to increase the number of its overseas stores.</p> <p><b>Level 2</b> The candidate makes a good attempt to analyse/evaluate Primark’s decision to increase the number of its overseas stores.</p> <p><b>Level 3</b> The candidate presents a well-balanced analysis and evaluation of Primark’s decision to increase the number of its overseas stores.</p> <p>Responses might include the following:</p> <p><b>Advantages:</b></p> <p>Primark will have access to a far larger market, for example the United States market is very large and presents Primark with the opportunity to increase sales and profit.</p> <p>As Primark grows it will be able to reap the benefit of increased economies of scale, which will benefit all of its business.</p> <p>Primark may develop products for overseas markets that it can then sell in its other stores.</p> <p>Primark may recruit workers and managers overseas who can benefit the whole business.</p> <p>If it is successful it allows Primark to spread its risk as the one or more overseas market may be booming when Primark’s other markets are in decline.</p> <p><b>Potential pitfalls:</b></p> <p>Many other British companies have tried to penetrate the overseas markets and have failed, e.g. Tesco in the US.</p> <p>There is fierce competition already established in many overseas countries and there is no guarantee that local consumers will desert local businesses in favour of Primark. May need to consider advertising which will be expensive.</p> <p>Consumer taste in other countries may be quite different to that in the UK so it will be necessary to develop a whole new range of garments to suit particular markets. This can be expensive and the small volume will mean fewer potential economies of scale.</p> <p>It will be expensive to open the new stores and organise promotions.</p> <p>There may be supply chain problems.</p> <p>There may be legal obstacles to overcome.</p>	<p><b>12</b></p> <p>1-4</p> <p>5-8</p> <p>9-12</p>	<p>AO1 2</p> <p>AO2 2</p> <p>AO3 4</p> <p>AO4 4</p>



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	<p>There may be cultural differences.</p> <p>There may be language issues when operating in some countries.</p> <p>Possible diseconomies of scale.</p> <p>There may be problems associated with exchange rates.</p> <p><b>Conclusion</b></p> <p>Despite the problems, if Primark has done its market research properly there is huge potential for increased sales and profits in increasing the number of its overseas stores. Just because others have failed it does not mean that they have to. Nothing ventured, nothing gained.</p> <p>Any other valid point.</p>		