

Examiners' Report
January 2012

GCE Business Studies 6BS04 01

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January 2012

Publications Code UA030219

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Introduction

This paper was based on the Toyota pre-release, which focused primarily on the recall of many car models due to safety issues. As a result the context of the paper was perhaps more focused than previous series. However, with this being such an important area of business decision-making and Toyota being such a large multinational business, it is helpful that candidates and centres are able to target their preparation. Candidates once again seemed to benefit from the pre-release of the stimulus material - their answers were well informed, showing a good perception of the pre-release material and also developments with Toyota since this material was written. Some topics such as 'contribution' had not been examined before this series and this case study provided the opportunity for this to be addressed.

Question 1

This question required candidates to show knowledge of corporate strategy. Two marks were achievable without reference to the Toyota pre-release; however many candidates chose to offer these, thus securing the marks in a different way. There was confusion between aims, objectives, strategy and mission: in some responses this inhibited candidates' ability to secure the full two marks.

This is quite a specifically focused question, requiring candidates to define objectives carefully.

1 What is meant by the term 'Corporate Objective'?

Corporate objectives are quantitative, SMART (specific, measurable, achievable, realistic and time-specific) goals to be completed in the medium-to-long term. Corporate objectives are derived from the corporate aims set by the senior management team.



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Examiner Comments

Corporate objectives should be the business quantifiable goals, which usually include measurable targets. They are intended to help the business meet their overall aims or mission.

Candidates could be directed to the 'hierarchy of objectives' that appears in most good textbooks and resources to help clarify their understanding.

Strategies are different - they are what a business uses to achieve their aims and objectives.



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Examiner Tip

In this example the candidate clearly uses the SMART acronym which is excellent and entirely relevant to this question. They also accurately explain the link to the overall corporate aims.

Question 2

'Distinctive capabilities' are also an area where specific knowledge is needed and there is room for confusion for candidates. Some candidates used the term Unique Selling Point or USP, which strictly speaking is more of a marketing concept.

Distinctive capabilities are features of the **business** that differentiate it from competitors. Usually examples include: reputation; innovation; or contacts within or around the organisation.

2 What is meant by a business's 'Distinctive Capabilities'?

A company having 'distinctive capabilities' means that it has obvious areas in which it thrives and ~~can~~ actions it can carry out extremely well. For example, Toyota's distinctive Capabilities could be said to be 'quality' and 'reliability'.



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Examiner Comments

This candidate focuses on the actions the business carries out in which it thrives (1 mark for partial or vague explanation), but they then go on to use the example of Toyota's quality and reliability which is an example taken from the pre-release material.



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Examiner Tip

If you have the time, add an example to your answer on question 1 and 2. You're not required to, but it can help to raise the mark that you get if your initial explanation is not as good as it could be.

Question 3

This question is specifically requiring candidates to use examples from the additional evidence in the question paper, to apply their answers to this area of corporate strategy. As this is a 'point-based' question candidates are able to achieve analysis marks, without previously showing knowledge or application (although their marks of course would be lower as a result)

3 With reference to Additional Evidence H, explain the difference between a strategic decision and a tactical decision.

Strategic decision is made in the situation of uncertainty and has a medium and long-term deal with the business.

Joint venture with Tesla Motor is a strategic decision, which the evidence H said "long-term strategy". It made in a uncertainty situation, since they have acceleration/recall problem which mentioned in evidence A. This strategic decision which is long way to achieve a sales increase. Since Tesla is good at green "auto" market, it can help to Toyota ~~become~~ gain the reputation of quality.

Tactical decision is a made by a short-term consideration, like a discounting the car which want to boost the sales in short term but it can't use it for a long period of time since they need to pay more cost to do this decision which may become worse.



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Examiner Comments

This candidate clearly defines a strategic decision and accurately quotes from the additional evidence to support this. There is then further analysis of this decision, relating it to Toyota's longer-term strategy of entering green markets.

Although the explanation of Tactical decisions is not as strong, it still provides sufficient understanding and application to achieve these marks.



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Examiner Tip

Read the question carefully and where there are instructions directing you to a specific area of the pre-release or exam paper, take the time to look. Often, it will make answering the question more straightforward for you.

Question 4

Again this question directs students to a particular area of the pre-release material, in this case evidence C. It is asking them to pick relevant guiding principles and analyse how and why these may have been compromised during the time of the safety recall.

This 6 mark question uses the trigger word 'explain', so there is an expectation that candidates will understand this as basic analysis (in this case two analytical points).

- 4 Explain **two** ways in which Toyota's 'Guiding Principles' (Evidence C) seem to conflict with the current problems of car safety faced by the company.

Toyota's guiding principles is like their mission statement for the company. A mission statement is one in which gives direction to the company and employees motivating them and showing what the company is about.

In the 3rd point in evidence C it says 'providing ^{clear and} safe products and services that fulfill the needs of customers worldwide'. This conflicts with the current car safety problems within Toyota because their cars ~~are~~ weren't safe enough because of a fault in their accelerator pedal.

in the 4th point it states to 'provide outstanding products and services that fulfill the needs of customers (Total for Question 4 = 6 marks)

worldwide'. The products faults have ~~been~~ been linked to 26 accidents in Europe and possibly 34 deaths and 22 injuries. This shows that they haven't fulfilled the needs worldwide, and their products have been faulty not outstanding, making their CSR look bad.



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Examiner Comments

This candidate's answer starts very clearly with an accurate definition of what Toyota's guiding principles are and the role they play. Although this is not explicitly asked in the question, it is always good practice to define key terms in order to show knowledge of the unit specification.

The answer goes on to quote from the principles and explain how these conflict with the reality of the business situation Toyota faced. In this case there was not a great requirement for candidates to bring in additional knowledge; the key to success was comparing what the business claimed with what occurred in reality.



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Examiner Tip

Wherever possible define key terms or concepts that appear in the question. It will not take you long and will help to focus the accuracy of your response.

Question 5

This question is a variation on past questions in this unit. The key to it is that candidates are required to use Ansoff's matrix in order to frame their analysis. Ansoff's matrix is a key feature of the specification and it is a relevant tool for analysing a wide range of business decisions.

5 Using Ansoff's Matrix, analyse Toyota's decision to enter into a joint venture with Tesla Motors (Additional Evidence H).

Ansoff's Matrix is a strategic tool. It looks at the level of risk involved with new ideas. The most risky option is diversification, which involves going into a totally New market + Products. According to Ansoff's Matrix Toyota's level of risk by entering into a joint venture ~~is~~ has some risk but then any business decision has a level of risk attached. Toyota + Tesla are staying in the car market (existing) but then producing a new Product; Risk, Product Development. However By joining with a Tesla which already has working technology + small sales the risk is slightly reduced as Toyota know they have the technology. With Toyota's Power, they would be able to further develop technology + improve the car further. Also it would cost Toyota less to go into a joint venture than to produce the technology themselves.

However, although this seems like a risk worth taking for Toyota, it is not certain that the demand for the products would be there, ^{as it is new technology.} (Total for Question 5 = 6 marks)

Overall I think Toyota's decision was a good one, as they have a foothold in the electrical car market + have greatly reduced time lag between production as they have the technology



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Examiner Comments

This answer clearly uses Ansoff, referring to the main features of the matrix such as diversification and risk. The candidate clearly applies their answer, referring to Tesla, the car market and expansion plans for the future. Importantly, the candidate dismisses diversification as the chosen strategy - there can be an argument for all three other strategies, but there is some knowledge of the product and/or market on behalf of Toyota.



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Examiner Tip

If a question requires that you use a decision-making tool such as Ansoff's matrix, please do so. It is always worth outlining its key features so that the examiner knows that you understand what the tool is and what it is for.

Ansoff matrix contains of four major groups. They are market penetration, ~~product~~ diversification, product differentiation.

Toyota is going to enter into a joint venture with a six year old start-up company. Traditionally, Toyota has never signed deals with start-up companies. They are going to design and build electric cars. They are going to introduce a new product into an existing market. Tesla's deal with Toyota might or might not benefit in any way to either Toyota or Tesla. As Toyota has taken a tactical decision, it might not be a successful idea. But on the other hand, as Tesla is considered a pioneer in electric vehicles, the deal with Toyota could improve both their businesses. As Toyota has never been in a joint venture with a small start-up company this decision might not be a quite successful idea.



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Examiner Comments

Unfortunately this candidate does not refer to Ansoff's matrix directly and only briefly mentions a 'new product in an existing market'. The attempt at analysis is quite descriptive and the answer refers to 'tactical' decisions which relate to a later question.

Question 6

This was the first time that this topic had been examined in the current specification. Its focus was on how cost issues might affect a Toyota dealer's pricing decisions. Many candidates recognised this as referring to the concept of special order decisions. The stem of the question was intended to guide candidates towards consideration of how a reduction in price for one car might affect the overall costs of a specific Toyota dealer in the US.

Some car dealerships in the USA are considering selling one of their Toyota models at a price below total cost in response to recent product recall problems. The lower price will still provide a **positive contribution** to the dealership's fixed costs.

6 Assess whether the dealership should go ahead with this decision.

Contribution is calculated by using the formula:

$$\text{Price of product} - \text{Cost of } \text{net} \text{ good}$$

On the one hand, the dealership should go ahead with this decision because, according to principle of supply & demand lower price vehicle may attract more buyers therefore increasing volume of sales which leads to an increase in revenue. Moreover, given that dealership's fixed costs remain the same a higher volume of sales would mean that profit level is likely to increase as the lower price will still provide a positive contribution towards the dealership's fixed costs.

However, Toyota has been subjected to price discounting in recent years anyway & though this had led to increase in sales level lowering price of vehicles would undermine value of the brand which may put off some customers as Toyota's cheap discounted cars would be seen as not 'up-market'. For such reasons, ~~Toyota should~~ the dealership should not ~~price~~ price Toyota's models lower.

To conclude, in times of a recall crisis pricing Toyota's cars lower may be able to impede a fall in sales especially in the US where ^{sales} share fell dramatically ~~at sales~~ (evidence F & B). However, this may lead to conflict ^{of} stakeholders' interest as dealership like to price car lower to maintain profitability, though, Toyota's executives ^{would not want to see brand value} undermined. (Total for Question 6 = 9 marks)

TOTAL FOR SECTION A = 30 MARKS



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Examiner Comments

This answer shows an accurate understanding of the concept of contribution and how it is calculated. Importantly this is linked to the idea that fixed costs for the dealership won't change in the short-term, so a pricing decision that brings in more revenue may help to actually increase the contribution to fixed costs.

The conclusion is excellent as it brings in the additional argument that there may be a conflict of interest between a dealer who wants to sell cars and a manufacturer who may be more concerned about the effects of the pricing decision on the overall brand image of the business.



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Examiner Tip

Make sure you read questions carefully. Where terms are written in bold, be careful to define these and explain how they are relevant to the main question that is being asked.

Toyota had to recall 270000 of its Prius models due to a faulty braking.

By cutting the cost you could be further jeopardising Toyota's brand image as customers would worry that the fault affects every car, however it is dependent on how great a cost price drop, as it was only £200 it would have little effect but if it were £2-3,000 it could mean that people who previously couldn't afford the Toyota now can hence opening up a new section of customers.

A positive thing for cutting the price is the likelihood of cars being sold increased meaning stock levels would be reduced allowing more space for ~~the~~ new ^{models} cars to be bought in, but again it's dependent on magnitude of change.

~~Overall~~ However by decreasing prices it could cause Toyota's financial standing to worsen further as their profits would decrease even if sales increased but again the effect would be dependent on magnitude of change.

Overall I think Dealerships should not go ahead with decision as it could further affect ~~the~~ Toyota's image + profits.

(Total for Question 6 = 9 marks)



ResultsPlus Examiner Comments

This response makes no reference to how the pricing decision will affect the dealership's overall costs. It looks at the wider qualitative issues surrounding the decision and it does this well. However these points should come after discussing contribution.

Question 7 (a)

The nature of this question is that it provides an accessible stimulus for all candidates to answer. As with previous series, it requires candidates to make a judgement on the usefulness of one of the key decision-making tools in the unit specification. Real world events in the shape of the Tsunami that hit Japan provided relevant additional context to this question. Although this had not occurred at the time of writing the paper or pre-release, candidates who referred to it received some reward. *Candidates who did not do this were certainly not disadvantaged though.*

7 *(a) Evaluate the usefulness of business contingency planning to Toyota.

(20)

Contingency planning is preparing for the unexpected and ~~was~~ usually unwelcome events that are, however, reasonably predictable and quantifiable.

*Contingency planning could be useful to Toyota since it should have included a plan to deal with the recalls in a much quicker manner. Toyota was hugely criticised for their slow response to the recalls which spanned ~~over~~ over 4 months from September 2009 to January 2010. Therefore, the plan prepared should allow them to ~~not~~ carry out the recall operation ~~so~~ swiftly, decreasing the length of time where Toyota was immersed in negative media coverage, tarnishing their brand image, leading to a drop in global sales in 2010 of 7.7%. Toyota hence had to extensively cut their expenses (dropped by 16.4%) to survive and ^{even} perform ~~over~~ better financially in 2010 than in 2009.

Contingency planning could also benefit Toyota since it would ensure Toyota had enough financial resources in store to deal with the recalls. ~~Toyota's liquidity in~~ It could be argued that Toyota actually made use of contingency planning financially since ~~they~~ their liquidity improved in 2010.

with acid test of 1.09:1 moving within the ideal (0.75:1 - 1.10:1). This shows Toyota had enough current assets (excluding stock) to cover the current liabilities so they could pay off the costs of recalls without much difficulty.

However, contingency planning would not be so useful to Toyota since it takes a lot of time and resources to put a plan in place. If the executives of Toyota ~~had spent~~ spend too much time to make sure they come up with a thorough contingency plan, they could lose focus on their current objectives, and perhaps take their eye off Toyota's distinctive capabilities of reliability and quality. Therefore, they could again face quality issues which would be the last thing Toyota could hope for after the recent recalls.

Contingency planning could ~~arguably be not useful to Toyota~~ be of no use to Toyota since it could be argued that such a large scale recall could not have been predicted. Toyota's reputation is built primarily on their quality, so they would not expect to encounter quality issues. Thus, any form of planning would not cover the extensive recalls which covered 4 million vehicles worldwide, suggesting its little use to Toyota.

Whether contingency planning is useful to Toyota depends on whether Toyota could predict the crises it encountered, though in ^{the} car industry, ~~and~~ quality issues would be quite predictable. I think any form of planning would be useful to Toyota since it would ~~limit~~ ^{quickly} ~~the time in which~~ help Toyota distract the customers from the quality problems, limiting the damage to the brand image.



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Examiner Comments

This response shows an excellent understanding of what contingency planning is and how it might be used by Toyota. The answer follows the expected structure of analysing the uses of contingency planning and then contrasting them with the limitations. Throughout the answer there is clear application to the context and the candidate shows a good understanding of Toyota's outside influences.

The conclusion makes a sophisticated judgement that it is not just having or not having a contingency plan that is important, it is how or whether the issue in question can be planned for, or whether the plan is appropriately executed. This is a very strong evaluative judgement and answers the question directly.



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Examiner Tip

In Q7a, make sure that your answer always applies to the business in question - in this case Toyota - otherwise you are unable to make an informed analysis or evaluation.

For your overall conclusion, try to bring in some additional points from the MOPS of the business (Its Market, Objectives, Product/service, or Situation). Avoid simply listing the previous arguments you have made.

Contingency planning - plan B. Having another plan for the business in case something goes wrong unexpectedly. Because of the recent recall of cars due to lack of safety and faulty brakes Toyota needed a contingency plan. This has allowed them to still continue selling cars and making a profit. It has also allowed them to develop these cars and make them safer for the future.

From looking at evidence B it is clear that ~~that~~ ~~has~~ ~~gone~~ overall the total number of sales of Toyota cars has decreased between the financial years of 2009 - 2010. This could be due to the faulty car model which leads to people not wanting to purchase Toyotas because they don't think they're safe. However in countries such as Japan where Toyotas are made they have still managed to have an increase of car sales of 217 595.

Evidence A shows that Toyota prides itself on 'high quality' ~~they~~ and continuous improvement.

They have failed to meet the 'high quality' status because they have produced faulty goods. This means that they have had to use a contingency plan to help them to recover and continue selling goods. A contingency plan could include changing market strategy completely and starting again. They could use product development and find a

new car market 'ecofriendly cars' to help them boost sales again. They Helping people to forget about their guilty goods. Rebadging could also help Toyota to rediscover themselves and start from scratch with a better reputation.

~~Toyota is run by one person~~ It is a very theory x business meaning the workers are told what to do by the managers. The managers will have a say in the business. It will also use the JIT production method to help customers be satisfied with the service provided.

Evidence F has showed a rapid decrease in shares in January 2010 this will be because of the guilty cars and having to recall them.

Plan B in this scenario would be developing the cars making sure they are safe and improving the product so they are able to continue selling cars increasing the sales each year.



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Examiner Comments

This answer, though well written, is one-sided. Even if in your mind the answer is pretty clear (e.g. Contingency planning is essential to Toyota), make sure you at least explore the counter-arguments before making a judgement.



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Examiner Tip

Make sure that in all your responses where 'evaluate' or 'assess' are the command words, you write a balanced answer with a contextual conclusion.

Question 7 (b)

It was pleasing to see a range of good responses to this question, often taking very different approaches in their answers. As with previous series, the 7b question is designed to explore an open-ended and wide-ranging area of the specification, so candidates have an opportunity to show off their understanding of the case study business and its situation.

According to Toyota president Akio Toyoda:

"We pursued growth over the speed at which we were able to develop our people and our organisation, and we should sincerely be mindful of that..." (Evidence E)

*(b) Assess the extent to which Toyota's growth may have contributed to its safety problems.

(30)

Growth

- led to supplier issues
- lost focus on culture
- new factories

Not growth

- deference
- failure to plan
- conc - too grow to rapid.

Toyota encountered safety problems in recent years that damaged the brand and reputation of Toyota. However the extent to which these issues were caused by growth* is debated. *and Toyota's aim to be the world's ^{biggest car maker}

It is possible to argue that it was not growth that led to the issues with safety but that as a large company that had been running for decades it was inevitable that eventually there would be a fault in some of the cars. And that it was actually Toyota's failure to respond to the crisis due to their poor crisis management that led to the case gaining such publicity. It could be argued that with good crisis management the case would never have spiralled out of control as many reports of the faulty pedals were only attribu given after the case

gained publicity. Another argument would be that it was the Japanese culture that led to the safety problems. This is as due to the culture of deference and obsession with craftsmanship and quality it is often difficult to admit mistakes for fear of embarrassment.

However others would argue that it was this culture of quality and craftsmanship ~~that~~ ^{was what} that led to Toyota's legendary reputation for quality. They would say that rather than causing these problems it was the abandoning of ~~this~~ culture of quality in favour of a culture aimed at growth that led to the safety problems.

Another argument that growth led to the safety problems was that in order to expand by 50% Toyota had to seek out new suppliers to fuel its growth. This meant abandoning its guiding principle of always trying to work with trusted suppliers and instead adopting new untested suppliers. These untested suppliers could have led to the safety problems that Toyota struggled with.

A final argument that Toyota's rapid growth caused their safety problems would be that in order to grow quickly Toyota needed to up capacity by 50%.

This involved hiring new workers and opening new factories, many of them outside Japan. This may have caused ^{the safety} problems as these workers may not have brought into the Toyota culture of quality and improvement.

So I think it is clear that the while the extent of the crisis could have been reduced by better crisis management the underlying safety problems were caused by Toyota's desire for growth. This growth probably would not have led to the safety problems ~~however~~ if Toyota had tried to grow at the same pace that it could have developed its people and organisation. However Toyota's aims became confused when they stated they desired to become the world's biggest automotive company and their desire for rapid growth led to the destruction of their quality based culture. So Toyota's desire for rapid growth was the main contributor to their safety problems.



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Examiner Comments

This candidate recognises that Toyota's rapid growth and the other potential causes of the safety issues such as problems with suppliers, are inter-related. However, in the main part of the answer there is a clear outline of the arguments in favour of growth being the main cause of the problems, followed by an explanation of other factors being important, such as the culture of the business.

The candidate's conclusion agrees that it was the pace and nature of growth that was the issue, not the growth itself. This is a subtle argument, but an important one which many other candidates also made.



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Examiner Tip

Make sure that both sides of the argument are given in your response, even if you think the counter-points are weak. In this case it seems clear from the case study and wider coverage of this issue that Toyota's growth was the main cause of problems, however there were others such as a breakdown in the quality checking that were also important either on their own, or in combination with the rapid growth.

According to Toyota president Akio Toyoda:

"We pursued growth over the speed at which we were able to develop our people and our organisation, and we should sincerely be mindful of that..." (Evidence E)

*(b) Assess the extent to which Toyota's growth may have contributed to its safety problems.

(30)

Toyota's growth is done by both internal source and external source of growth i.e. By Joint ventures with Tesla in Evidence A.

Toyota's growth may have contributed to its safety problems as follows:-

Firstly; Toyota's growth has caused two distinctive capabilities i.e. quality and reliability to be tarnished because of massive expansion caused by Toyota. led to safety problems e.g. - Faulty accelerators in USA.

Due to Toyota's massive growth all over the world, there has been mismanaging crisis between quality disclosure and assuming responsibility difficult to employees because initially the culture that was experienced in Toyota was rote culture which was having organisational hierarchy which led to safety problems of Toyota.

Also due to the organisational hierarchy, the workers were not allowed to question the superiors led to the safety problems because team work amongst the workers and the management was not achieved making it hard to change what has been decided and designed.

More over; when the ^{safety} problem occurred; ~~the~~ Toyota was very slow in response to the issue because of management crisis in Japan is grossly undeveloped.

Furthermore; Toyota was big i.e. - Growing big and distance from their consumers that forced them to lack communication and lead to

the safety problems. If ~~the~~ ^{the} consumer's were given more priority and had direct contact with the company's managing director, then there wouldn't be a massive recall all over the world / part of the world like it was due to massive growth.

However, due to Toyota's growth, it has enabled it to expand more than before. It is evidence that there was a joint venture with Tesla Motors to design and build electric cars.

Also the Joint Venture has enabled Toyota to diversify its product portfolio (product range) according to Ansoff's matrix but that would only increase Toyota's risks more.

More over; In Evidence 4, the deal with Toyota could dramatically improve the prospects of Tesla's next project, the Model S, whose \$50,000 (\$35,000) price tag would appeal to many families leading to high sales revenue and making the Toyota company more profitable in the long-run due to its increased market share.

Furthermore, Toyota pursued growth over the speed at which they were able to develop their people into more technologically advanced / skilled labor and also their organization grew internally which benefited them from costs of borrowing (interest rates) from banks and debentures. So what ever the company is - The Toyota company got in terms of its revenue was retained without any extra charges and help Toyota expand externally with Tesla increasing its growth to an extraordinary strength.

In Evidence C, point six, Toyota pursued growth in harmony with the global community through innovative management which helped Toyota ~~become~~ have more competitive advantage more than its

ruled through its distinctive capabilities which are reputed with/for high quality which includes reliability, low cost and build quality.

Also due to growth of Toyota, it has made its investment of their capital employed from 15,472,744 Yen to 19,663,072 Yen in 2010.

Conclusively; Further growth does more harm than good to the Toyota company because they have disregarded their customer's voices and caused massive mismanagement crisis internally causing a safety problems of accelerator pedals found in USA.

Also; Toyota's priority that were traditionally followed which were firstly safety, second quality and thirdly volume were not considered clearly especially safety issues that described in the results that Toyota face today. Although they are deeply sorry for any accidents that it drivers have experienced by but will not make up for the lost lives.

Moreover, with the Japanese proverb, "If it stinks, put a lid on it" is just an evidence that Toyota manager its problems with management with crisis and they are not containing the quality of their products from production which would have cause them with zero defects. but due to growth the above qualities and distinctive capabilities of Toyota were not preserved and preserved. Although they tried to attract new markets and customers by aggressive advertising and tried to grow externally by joint pricing with Tesla.



ResultsPlus Examiner Comments

This candidate does not discuss the counter-arguments to growth being a factor in Toyota's problems. Although their analysis is well written, without a detailed consideration of the possible counter-arguments it is not possible to access the evaluation marks for a question of this nature.

Paper Summary

The paper followed the same format as previous series in terms of the distribution of assessment objectives between questions and the number of marks available for the questions in section A and section B. A slight departure from previous series was that there were fewer quantitative calculations required of candidates. Quantitative decision-making techniques are a key feature of the specification, but these may not be examined in every paper. In this case the combination of specification topics and pre-release material lent itself to more qualitative techniques.

Section B, as will always be the case, asked 'open-ended' questions intended to prompt students to explore broad issues of Corporate Strategy

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