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Examiners' Report

June 2017

GCE Business 8BS0 02

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Introduction

This report is focused on the second paper 8BS0 02 'Managing Business Activities' that makes up the AS level in Business. This report should be used by centres as a teaching and learning tool in order to clarify the standardised approach that is used to mark responses. It should be used by both candidates and teachers to help candidates maximise their ability to score marks in future examination series.

This year's paper had a significant decline in entries compared to the previous examination series. It is interesting to note that the average mark achieved on the paper also declined. This perhaps represents less able candidates being entered for AS level as opposed to the full A level at the end of the full two year A level cycle. As a result, in selecting examples for this Examiners' Report I have been limited by the number of high-quality answers that I have been able to find from the range made available.

Question 1 (a)

This question should have been straightforward. It was surprising that some candidates were not able to accurately provide a definition or formula for the key business term. The average mark for this question was 1.34/2.

1 (a) What is meant by sales revenue?

(2)

Sales revenue is the amount of money the business has made in total at the end of the given time e.g. week, month, year



ResultsPlus Examiner Comments

This response scored 0 marks. It was indistinguishable from 'cash inflows'. If the candidate had stated 'money from sales', this would have been enough to score 1 mark.

1 (a) What is meant by sales revenue?

(2)

Revenue is the total amount of money made by a business from selling products. A high sales revenue is good for a business but it doesn't always mean it is very profitable.



ResultsPlus Examiner Comments

This response scored 1 mark. The addition of 'from selling products' compared to the previous example meant that there was more understanding than simply 'money coming in during a time period'. Candidates made this question harder than it needed to be since 2 marks could have been awarded for 'Selling price x quantity sold'.

1 (a) What is meant by sales revenue?

(2)

It is the total amount of money received by a business from selling its product/service in a period of time.

$$\text{Unit Price} \times \text{Sales Volume} = \text{Total Revenue}$$



ResultsPlus
Examiner Comments

A clear 2 mark response.



ResultsPlus
Examiner Tip

Candidates should learn the key terms from the specification. The four 'What is meant by ...' questions represented an easy 8 marks to score.

Question 1 (b)

The average mark for this question was 1.57/2.

(b) What is meant by total costs?

(2)

The total amount needed to pay out.



ResultsPlus

Examiner Comments

This response was awarded 0 marks. It could be a definition of 'cash outflow'. At AS level, the expectation is that candidates should be able to go beyond guess work and common sense.

(b) What is meant by total costs?

(2)

total costs are the variable and fixed costs together

total costs = ~~some~~ variable costs + fixed costs



ResultsPlus

Examiner Comments

This was a clear 2 mark response. The formula would have been enough to secure both marks.

Question 1 (c)

This question was the first of three quantitative questions on the paper. This question required candidates to calculate the number of pasties produced using a capacity utilisation figure provided in the accompanying case study. Very few candidates scored 1, 2 or 3 marks. Most candidates found this either easy or impossible. The average mark was 3.16/4.

The Posh Pasty Company's factory has a maximum output of 34,200 pasties per year.

(c) Using the data in Extract A, calculate the total number of pasties produced by The Posh Pasty Company in 2015. You are advised to show your working.

(4)

$$100\% = 34,200$$

$$10\% = 3,420 \times 9 = 30,780$$

$$1\% = 342 \times 2 = 684$$

$$\begin{array}{r} 30,780 \\ \quad 684 + \\ \hline 31,469 \end{array}$$

$$92\% = 31,469$$



ResultsPlus

Examiner Comments

This candidate showed clear understanding of how to calculate the correct answer, but made an error in that '342 x 2 = 684', which was then at a later stage copied down to become '689'. This resulted in the candidate getting the final answer wrong with '31 469' as opposed to '31 464'. Since the candidate had got the answer wrong and had not provided a formula, the most they could score was 2 marks. This was a 2 mark response.

The Posh Pasty Company's factory has a maximum output of 34,200 pasties per year.

(c) Using the data in Extract A, calculate the total number of pasties produced by The Posh Pasty Company in 2015. You are advised to show your working.

(4)

92% capacity utilisation.

Actual sales revenue.

$$\text{capacity utilisation} = \frac{\text{current output}}{\text{max output}}$$

$$92\% = \frac{\text{current output}}{34,200}$$

$$\begin{aligned} \text{current output} &= \frac{92}{100} \times 34,200 \\ &= \underline{31,464 \text{ pasties}} \end{aligned}$$



ResultsPlus
Examiner Comments

A clear 4 mark response.



ResultsPlus

Examiner Tip

Always provide a formula and workings in 'calculate' questions. If the candidate gets the answer wrong through a small error, it is still possible to score up to 3 marks. This is better than 0 marks through simply providing an incorrect answer.

The Posh Pasty Company's factory has a maximum output of 34,200 pasties per year.

(c) Using the data in Extract A, calculate the total number of pasties produced by The Posh Pasty Company in 2015. You are advised to show your working.

(4)

$$92\% = \frac{?}{34200}$$

$$0.92 \times 34200 = 31461 \text{ pasties.}$$

$$\text{Capacity utilisation} = \frac{\text{Output}}{\text{Maximum output}}$$

$$\text{Capacity utilisation} \times \text{Maximum output} = \text{Output.}$$



ResultsPlus
Examiner Comments

This example was a rare response in that it did not score 0 or 4 marks. The candidate had a clear understanding of how to calculate the correct answer with '0.92 x 34,200'. However, an error in using their calculator resulted in an incorrect final answer. Thankfully, the candidate provided a formula and workings, allowing 3 marks to be awarded.

Question 1 (d)

This was another quantitative question and the first time a question on variance analysis had been asked. All quantitative, 'calculate' questions follow the same rubric. If the candidate provided a correct answer they automatically got 4 marks. However, if the answer was incorrect then the remaining 3 marks were determined by whether the candidate had offered a formula or an accurate set of calculations. The average mark was 2.84/4.

(d) Using the data in Extract B, calculate the **total variance** in profit for The Posh Pasty Company's steak and stout pasty for July 2015. You are advised to show your working.

(4)

Budgeted Sales Revenue = £12,250

Actual Sales Revenue = £14,370

$14,370 - 12,250 = £2,120$ Favourable

~~Budget~~ Budgeted ^{total} Costs = £4210 = (£1770) Adverse

Actual total costs = £5890



ResultsPlus Examiner Comments

This candidate did not offer a final answer, so the maximum score they could achieve was 3 marks. There was no formula stated so the maximum mark that could then be achieved was 2 marks. The candidate provided a correct variance for revenue and an incorrect variance for total costs. 1 mark was awarded.

(d) Using the data in Extract B, calculate the total variance in profit for The Posh Pasty Company's steak and stout pasty for July 2015. You are advised to show your working.

(4)

Dif between budget and actual

Prof = Rev - cost of sales

(B) = 12250 - 4210 → 8040

(AC) = 14370 - 5890 → 8480

~~8480~~ 8040 - 8480 = -440

variance = £-440

→ over budget.



ResultsPlus Examiner Comments

This candidate was heading towards 4 marks. However, they identified the correct variance as being adverse rather than being favourable. Hence, 3 marks were awarded. If the candidate had just written '-440' 0 marks would have been awarded.



ResultsPlus Examiner Tip

Candidates are strongly advised to show their working and formula used.

(d) Using the data in Extract B, calculate the total variance in profit for The Posh Pasty Company's steak and stout pasty for July 2015. You are advised to show your working.

(4)

budgeted profit = £8040

$$12,250 - 4,210 = £8040$$

actual profit = £8480

$$14,370 - 5,890 = £8480$$

$8480 - 8040 = £440$ favourable variance in July 2015



ResultsPlus

Examiner Comments

The candidate provided the correct answer of '£440', so 4 marks were awarded.

Question 1 (e)

In this question, candidates struggled to make it clear what they were comparing the benefits of 'batch production' to. For instance, batch production is more efficient than job production but not as efficient as flow production. Lack of 'application (AO2)' or 'contextualisation' was a concern with many answers being generic in nature. Scoring tended to be bunched around half marks and there were very few responses that satisfied all the requirements of the mark scheme. The average mark was 4.02/8.

(e) Assess **two** likely benefits to The Posh Pasty Company of using batch production to manufacture its pasties.

(8)

Batch production is a method of production which involves a group of products, in this case pasties, being produced at the same time.

A benefit of batch production is it allows all items in the batch to be ~~identical~~ identical. This is a benefit because it allows Posh Pasty Company to produce identical products, this is a benefit because it allows the items to all taste the same.

Another advantage of batch production is it allows less skilled workforce. This is because each person can do a different stage of production and does not have to be able to do all stages. This is a benefit to The Posh Pasty Company because it allows them to reduce training cost as well as wages. Salaries can be ~~reduced~~ lower than a worker who is more skilled.



ResultsPlus
Examiner Comments

This candidate provided two developed benefits, the first of which was not really developed as a benefit to the business. Thus, there was no 'evaluation' or 'AO4' in the response at all. The candidate only provided very limited 'application (AO2)' since the word 'pasties' did not count since it was included in the question. Thus, 'taste' was probably the only example of this written skill within the entire answer. The analysis was also less well developed. Therefore, Level 2 was deemed appropriate and 3 marks were awarded.

(e) Assess **two** likely benefits to The Posh Pasty Company of using batch production to manufacture its pasties.

(8)

Batch production involves applying production to all units before continuing down the production line. A benefit of this is a variety of goods can be produced which can increase demand and revenue for The Posh Pasty Company, due to there an increase in product range. The article states they are able to make 'several flavours of Pasty' with this production process. However, it can be less efficient than methods like flow production and more time consuming.

Another benefit is unit costs can be cheaper than methods like job production as fixed costs are more spread, and workers. This can increase profit and help a business to The Posh Pasty company to grow further. However, workers specialise so they can become bored and unmotivated so which can negatively affect the business. Batch production can also be expensive if small quantities are produced.



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Examiner Comments

This was a more able answer than the previous example. There was a developed benefit in paragraph one, with some application and some undeveloped evaluation. Paragraph two contained a generic benefit with some undeveloped evaluation. The candidate could have developed their evaluation and provided more chains of analysis whilst being in context. This response was placed at the top of Level 2 and 5 marks were awarded.



ResultsPlus

Examiner Tip

In 8 mark 'Assess **two**...' questions, there is no need for a conclusion.

Question 1 (f)

In this question very few candidates picked up on the '...as its main source of finance' part of the question. Many candidates reverted to a set of 'pros' and 'cons' about the use of crowd funding, with many answers using common sense to articulate their response, whilst at the same time also being generic. Many answers scored in the 3-6 mark range. The average mark was 4.62/10.

(f) Assess the importance to The Posh Pasty Company of using crowd funding as its main source of finance.

(10)

Crowd funding is a way of sourcing finance through investors.

Without crowd funding the business wouldn't have been able to start up and even start producing pasties. However they could have looked at other ways of raising their finance through business angels or family investment.

It is important to The Posh Pastry Company because in the long run they will be making a large amount of profit. As they have investors on hand to help them with any problems. Also on the other hand they can pay off investors any time to increase their own profits.

Overall it was important ~~at~~ when starting up the business but in the long run it isn't very important.



ResultsPlus

Examiner Comments

This was a less able response. There was nothing in the answer which related specifically to crowd funding at all. This response could have been a response about several other forms of finance. The candidate was given 1 mark for showing some low level understanding for the first sentence. 1 mark was awarded.

(f) Assess the importance to The Posh Pasty Company of using crowd funding as its main source of finance.

(10)

Crowd Funding is a method of external finance where a large group of people create a page on the internet and raise money for a business.

For The Posh Pasty company, crowd funding is very important as the finance being donated to them is interest free. This means the business do not have to pay for the money, or treat it as a bank loan, where the money is repayed in monthly instalments. This allows the business to use the money on whatever they want, without having to worry about paying any of the money back to the crowd.

With crowd funding being a method of external finance, this finance method will produce more money than internal finance will. Owners capital is

often limited, retained profit is only profit after tax, and sale of assets is a one-time deal between businesses to trade assets. These finance methods would not be as beneficial to the company, as the owners would have to rely on their own money to expand the business. Furthermore, the crowd levels could increase, meaning that more people are donating money to the business that will help them expand it.



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Examiner Comments

This, by contrast, was a much more able response. There was clear understanding of 'crowd funding' and the candidate went on to consider the 'pros' and 'cons' of this method of finance. Thus, the candidate showed 'analytical perspectives' and 'accurate and thorough knowledge'. However, the candidate had not really considered the question as to whether 'crowd funding should be used as its main source of finance' and there was no conclusion. The answer was also generic. Thus, Level 3 was deemed appropriate and 5 marks were awarded.



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Examiner Tip

Remember, in questions worth more than 4 marks, your answer will be marked using a 'levels of response' mark scheme. Thus, the examiner is making a judgement about how strong your written skills are in terms of 'knowledge/understanding (AO1)', 'application (AO2)', 'analysis (AO3)' and 'evaluation (AO4)'.

Question 2 (a)

In this question candidates confused 'productivity' with 'total production/output' or even the 'product' element of the marketing mix. The average mark was 0.89/2.

2 (a) What is meant by productivity?

(2)

Productivity is the amount of output an organisation can produce



ResultsPlus Examiner Comments

This answer was typical of many answers. Productivity is not the same as total production. Many candidates seemed to think that productivity was simply 'how many items the firm can produce'. Productivity tries to capture the efficiency with which goods/services are produced. Thus, a large factory may have a bigger level of production than a small factory, but the smaller factory may be more productive. This answer scored 0 marks.



ResultsPlus Examiner Tip

Make sure critical key terms are known. Productivity is **NOT** the same as 'total production' or the 'product' element in the marketing mix. This was a common error.

2 (a) What is meant by productivity?

(2)

Productivity is the rate in which workers work.
More productive workers leads to successful business.



ResultsPlus Examiner Comments

This candidate had some understanding of productivity through 'the rate in which workers work'. The definition was not full since there was no reference to output per person/machine and there was no reference to a time period over which the productivity was being measured. 1 mark was awarded.

2 (a) What is meant by productivity?

(2)

The level of output ^{in a business} per worker
over a period of time.



ResultsPlus

Examiner Comments

This candidate produced a textbook definition and had a clear understanding of the term. 2 marks were awarded.

Question 2 (b)

This question was well answered. Candidates understood that quality assurance involved ensuring the product met a pre-determined standard and this was done throughout the production process. Marks were also awarded to candidates who recognised that it also represents a 'culture of quality' throughout the organisation. The average mark was 1.17/2.

(b) What is meant by quality assurance?

(2)

Quality assurance means the company can make a promise for the products' quality. If it is not good, the company can change it for free.



ResultsPlus
Examiner Comments

This was an example where the candidate seemed to confuse 'quality assurance' with some kind of 'quality guarantee' being offered by the business. 0 marks were awarded.

(b) What is meant by quality assurance?

(2)

Quality assurance is the action of checking the product at the end of its production stage to see if it is good enough to be used/sold.



ResultsPlus
Examiner Comments

This candidate recognised that quality assurance involved 'checking the product' but then subsequently developed this through 'end of its production stage'. It was unclear whether the candidate meant at the end of the production process, in which case the candidate would be defining 'quality control', or at the end of every stage of the production process. It was a shame the candidate did not swap 'its' for 'every' since this would have elevated the answer to 2 marks. 1 mark was awarded.

010 machine, it is twice as productive.
(b) What is meant by quality assurance?

(2)

Quality assurance is making sure quality standards are met at each stage of production, this could mean employees ticking boxes to assure quality.



ResultsPlus

Examiner Comments

This response had both of the elements required to score 2 marks. The notion of 'meeting a pre-determined standard' and the idea of 'each stage of the production process'. 2 marks were awarded.

Question 2 (c)

As with all calculate questions, 4 marks were awarded if the candidate provided a correct answer to 2 decimal places. If the answer was correct, but not to two decimal places, 3 marks would have been awarded. An incorrect answer would lead an examiner to then consider whether a formula had been offered and whether there was some merit in the workings provided by the candidate. There was a clear division between candidates who had learnt the formula and those who had not and then were subsequently forced to resort to guesswork. The average mark was 2.05/4.

(c) Using the data in Extract C, calculate Burberry plc's gross profit margin to 2 decimal places (2 d.p). You are advised to show your working.

(4)

$$\begin{aligned} GP &= 2523.2 - 757.7 \\ &= \text{£}1765.30 \end{aligned}$$

$$fc = 757.7 + 1325.2 = 2082.9$$

$$\frac{1765.3}{2082.9} = 0.85$$
$$\times 100 = \textcircled{85}$$



ResultsPlus Examiner Comments

The candidate provided an incorrect answer. There was no formula so the question became 'How many marks out of 2 was the answer possibly worth?' There was a calculation of 'gross profit' which, if correct, would have scored 1 mark. However, the candidate made a slip with the calculation and the answer should have been '£1 765.5m' not '£1 765.3m'. Thus, no marks could be awarded.

(c) Using the data in Extract C, calculate Burberry plc's gross profit margin to 2 decimal places (2 d.p). You are advised to show your working.

(4)

$$£2,523.2 \text{ mill} - £757.5 \text{ mill} = £1,765.50 \text{ mill}$$

$$= £176,550,000.00$$



ResultsPlus

Examiner Comments

This candidate knew how to calculate gross profit, but did not know how to calculate a gross profit margin. Thus, 1 mark was awarded.

(c) Using the data in Extract C, calculate Burberry plc's gross profit margin to 2 decimal places (2 d.p). You are advised to show your working.

(4)

$$\text{gross profit margin} = \frac{\text{Gross Profit}}{\text{turn over / Revenue}} \times 100$$

(GPM)

$$\text{Gross Profit} = \text{Revenue} - \text{Cost of Sales}$$

$$\text{GP} = 2523.2 - 757.7$$

(GPM) GPM:

$$\text{GP} = 1765.5$$

$$\text{GPM} = \frac{£1765.5}{£2523.2} \times 100 = \underline{\underline{69.97\%}}$$

$$£2523.2$$



ResultsPlus

Examiner Comments

This is what examiners want to see. There was a correct answer, so 4 marks could be awarded. However, if the answer was incorrect it was very easy for the examiner to follow the candidate's process of thought. 4 marks were awarded in total.

Question 2 (d)

This question had two 'application' or 'AO2' marks attached to it, as can be seen in the mark scheme. Therefore, a candidate limits their scoring to 2 marks if they answer the question in a generic way. Sadly, this was a common mistake made by the majority of candidates. The average mark was 2.13/4.

(d) Explain how the use of waste minimisation in its new factory might affect Burberry plc.

(4)

Waste minimisation is when you lower the amount of wastage i.e. time, money and materials.

Waste minimisation could decrease costs because they won't have as much waste disposal costs which may increase profit. If they go out to the public they may increase sales by making people think they are an ethical company.



ResultsPlus Examiner Comments

This was a standard response to the question. The candidate identified how 'waste minimisation might affect Burberry' by stating 'lower costs' and then developed it to generate the 'AO3' or 'analysis' mark by linking it to 'higher profit'. At the end of the response there was another sentence which, rather than offering further development, was probably a separate point. However, there was no contextualisation anywhere within the response. Thus, only 2 marks were awarded.



ResultsPlus Examiner Tip

There has to be two separate strands of development in context to allow all 4 marks to be awarded. Avoid writing generic responses that simply refer to any business.

(d) Explain how the use of waste minimisation in its new factory might affect Burberry plc.

(4)

waste minimisation is when a business takes ~~to~~ ^{steps} to ensure that it is producing less waste, e.g. by recycling. Waste minimisation may affect Burberry PLC positively as they it may lead to an improved reputation. As businesses are expected to become more eco-friendly, waste minimisation will improve Burberry's reputation as they are seen as taking steps to become more eco-friendly. This will mean they have an increase in demand as more people shop there and therefore increased profits. However, waste minimisation may lead to an increase in outgoings as recycling ~~take~~ means specialised bins ~~to~~ need to be brought.



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Examiner Comments

This response took a different, but equally valid route to answer the question. Rather than going down the 'lower costs leading to higher profit' approach used by the candidate in the previous example, this candidate looked at the answer from the perspective of 'improved reputation'. The candidate developed their response so, again, both the knowledge (AO1) and analysis (AO3) mark could be attained. However, the response remained generic. 2 marks were awarded.

(d) Explain how the use of waste minimisation in its new factory might affect Burberry plc.

(4)

Waste minimisation is trying to ~~maximise~~ minimise waste as much as possible. In this case, waste minimisation at Burberry's new factory would affect ~~them~~ Burberry's profits positively ~~was~~ because there would be less waste of defected trench coats as less material will be wasted by ensuring the product is made right first time. As a consequence Burberry will have an increase in profits as they'll have to order less material for their trench coats as less will be made due to less defected wasted product. Therefore Burberry can reinvest this profit into expanding their stores or advertising their quality trench coats.



ResultsPlus Examiner Comments

This was a response where the candidate had been taught the correct examination technique. There were sufficient strands of development and the candidate used phrases like 'material (taken to mean fabric)' and 'trench coat' to contextualise their response. This response scored 4 marks.



ResultsPlus Examiner Tip

Use the case study evidence to give you the scope to contextualise. Words that are used in the question, such as 'Burberry' do not count as contextualisation. Ask yourself 'What do Burberry make?' and 'Who are Burberry's competitors?' This will provide a strong starting point for the contextualisation of your response.

Question 2 (e)

In this question many candidates thought that they were being evaluative by considering the 'pros' and 'cons' of holding no stock. However, the question asked for 'impacts'. Thus, if the 'con' was simply a drawback of 'just in time' that had nothing to do with the 'pro' that had just been articulated it would be treated as a separate impact and no evaluation would be present. This was a mistake that many candidates made. A further problem was that some candidates did not know what 'limited stock' meant and answered the question the wrong way round and instead considered a 'just in case' system of stock control. The average mark 4.25/8.

(e) Assess **two** likely impacts on Burberry plc from holding limited amounts of stock in its new factory.

(8)

By Burberry plc holding limited stock at their factory they will be unable to cope with large increases in demand meaning ~~exist~~ customers will be ~~dis~~ desatisfied because Burberry will have run out of stock so this will likely decrease reputation for the business which could lead to a loss in sales for the business resulting in less sales revenue and in result less profit. However by holding limited stock Burberry cuts its costs in storage meaning that total ~~cost~~ costs are reduced and product waste will likely be reduced aswell meaning less costs which would lead to greater profit.



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Examiner Comments

There were two impacts considered within this answer. One negative and one positive. Neither were evaluated and the answer was generic. The analysis was solid though, linking terms together in logical chains that went beyond the use of simple common sense. Using a best fit approach the answer ended up at around 3-4 marks. 4 marks were awarded in total.



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Examiner Tip

Remember, 'impacts' can be both positive and negative so looking at the 'pros' and 'cons' of an argument may mean that candidates are not being evaluative.

(e) Assess **two** likely impacts on Burberry plc from holding limited amounts of stock in its new factory.

(8)

Stock is the amount of goods/products that are at the warehouse. It comes in 3 forms of raw materials and components, work in progress and finished goods.

One impact of holding limited stock to Burberry is that it will reduce the amount of storage space needed therefore reducing the amount spent on storage. Consequently, Burberry will be able to reduce their fixed costs allowing them to generate a higher percentage of profit in their sales revenue. This is important to Burberry because it allows to successfully operate in a Just in Time production process as the stock will be delivered when needed. Therefore, there will be no finished goods in the warehouse left to be damaged therefore making it unsellable reducing productivity of Burberry. To what extent this can be seen as an impact depends upon whether or not Burberry used to keep a large amount of stock as demand may have been high enough for all products to be bought.

Another impact of holding limited stock is that Burberry will be unable to meet unexpected orders therefore unable to supply high quality products to their customers as they can't be delivered at the right time. Consequently, Burberry may lose out on customer loyalty as they are unable to meet the delivery needs of their customers. This is important to Burberry because their selling price is set at £1,500 for their trench coats therefore by not providing high quality due to not providing their products at the right time, they are unable to justify the premium price that they have set which could potentially result in customers going to competitors. To what extent this can be seen as an impact depends upon whether or not Burberry have planned for unexpected orders in terms of their production time.



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Examiner Comments

By way of a contrast, this was an answer that was placed in Level 3. The candidate articulated two impacts, both of which were evaluated through the consideration of 'to what extent'. There was good analysis within the articulation of both impacts and the second impact had some very good evidence of contextualisation through '£1 500' and 'trench coats'. To reach full marks, the candidate needed more evidence of 'application (AO2)' within their answer, since the first impact was generic. 7 marks were awarded in total.



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Examiner Tip

Think about using paragraphs effectively. It makes sense to use two or four paragraphs for this question. One paragraph per evaluated impact. Alternatively, a four paragraph approach can be used, i.e. one paragraph for an impact, and then a paragraph for its evaluation and then repeat this structure for the second impact.

Question 2 (f)

This question was on inflation and the effects of a relatively small level of inflation on Burberry. Many candidates mixed 'inflation' up with 'exchange rates' or even 'taxation' in some cases. Some candidates considered the reaction of the Bank of England to the stated inflation rate of 0.1% and incorrectly articulated that an increase in interest rates was necessary and their subsequent answer was about the impact of a rise in interest rates on Burberry. There were very few high-scoring answers to this question. The average mark was 4.26/10.

In November 2015, UK inflation increased to 0.1%.

(f) Assess the likely impact of this rise in inflation on Burberry plc.

(10)

Inflation is the reward for ~~being~~ saving money and the cost of borrowing money.

One impact of the rise of inflation is that if Burberry plc were to get a loan to pay for the new factory in Leeds & payments would increase. This means that Burberry would have to charge higher prices for their luxury fashion goods. Due to the fact inflation is increasing, a lot of people would have lower incomes which would see the demand for Burberry goods drop as luxury fashion items are a normal good and they would be overtake or sold by any cheaper competitors. However, the increase in payment will only be by around ~~£~~ 50,000 pounds. This means that Burberry wouldn't have to increase their prices a whole lot. This would mean that there would be a lower demand than of one that would overtake Burberry.

Another impact is that banks would be more willing to lend as the return is greater. This means that any competitors could also gain new premises which allow them to keep up with Burberry.



ResultsPlus
Examiner Comments

This answer was typical of those where the candidate did not understand what 'inflation' was, or mixed it up with something else. In this case 'inflation' was mixed up with 'interest rates'. 0 marks were awarded.

Inflation is when the price of goods increases leading to each pound a person earns being worth less. ~~An~~ an increase in inflation may negatively affect Burberry sales as it means consumers have less disposable income which means sales of luxury goods that are income elastic will fall. This negatively affects Burberry as their revenue will fall which means they may not be able to grow the business such as by moving operations to the new Leeds factory as easily as their cash inflows will be lower and they may face ~~the~~ cash flow issues when they move or else suffer a decrease in scale year rapid expansion. ~~or buying coats for an example items which revenue~~ On the other hand, a 0.1% increase in inflation is very low which means it may have little to no effect on Burberry's trading as consumers will see the marginal increase in price as negligible. Burberry may have to increase price as the cost of raw materials will increase ~~to~~ increasing unit cost, however again this rise is next to nothing and would likely have little impact on consumer spending levels. A 0.1% added onto the cost of a typical Burberry trench coat is worth £150.



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Examiner Comments

This answer was placed in Level 4. The candidate knew what inflation was and could articulate the negative effect of inflation on Burberry in that disposable incomes may fall leading to lower sales and revenues. Income elasticity of demand was also mentioned but could have been treated in a more thorough way to convince the examiner of stronger quality of analysis. There was no paragraph structure, but the evaluation starts with 'On the other hand...', where the candidate then went on to consider the scale of the inflation and the limited impact it would have on Burberry. There was some application through 'new Leeds factory', 'trench coat' and '£1 500'. There was no conclusion. Using the best fit approach, bottom Level 4 seemed an appropriate mark. 7 marks were awarded.



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Examiner Tip

To reach the top of Level 4 you must provide a supported judgement, which will probably occur within a conclusion.

In November 2015, UK inflation increased to 0.1%.

(f) Assess the likely impact of this rise in inflation on Burberry plc.

(10)

Inflation is ~~the~~ a general rise in the price of goods ~~measured~~ in the economy, measured by the Consumer Price Index (CPI).

In general terms, inflation leads to higher prices which naturally reduces demand for a product. Burberry offers luxury products at a high price, meaning that demand could subsequently fall for Burberry's clothing if a price increase was to occur. Consumers could look elsewhere for cheaper substitutes, such as high street retailers like Next etc. This would subsequently lead to a decline in sales volume for Burberry due to the reduced demand for their products, reducing their profit margin and profitability as a whole.

Despite this, the increase of 0.1% is very ~~small~~ small and so is unlikely to greatly increase the price of Burberry's products. A coat costing £1500 would only increase to £1501.50, thus representing a very small increase in the price of the product. This therefore means that sales are very unlikely to be affected due to only a small increase in price, and being a well known good at a high price anyway means that any customer would have little trouble paying an extra £1.50.

Overall, the rise of inflation is not going to have a significant impact on Burberry because it only leads to a very small change in price. However if the inflation was greater, maybe 2-3%, then it could potentially lead to ~~an~~ decrease in sales due to customers looking for cheaper alternatives. Although inflation tends to result in a wage or salary increase as well so it is unlikely to have any great effect upon customer's ability to purchase Burberry's expensive clothing.



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Examiner Comments

This was a more able response. Note how the paragraph structure made it easier for the examiner to identify the written skills within the answer. Also, note that this response had much more application than the previous one and that a supported final judgement was made at the end of the answer. The candidate was awarded 9 marks.

Question 3

This question was synoptic in nature. Some candidates approached this question by para-phrasing the case study. This did not generate very many marks and did not mask a lack of understanding of what the question was asking. Most candidates considered the advantages and drawbacks of both of the choice options allowing them to reach Level 2/ Level 3 depending on the degree of analysis and application generated. However, very few answers reached Level 4 due to a lack of clear focus on 'competitive advantage' with many candidates reverting to considering the impact of their choice on revenues or profit instead. The average mark was 8.78/20, but this does not reflect the very wide standard deviation on this answer.

To maintain its competitive advantage in the premium sports car market, McLaren Ltd could increase its use of lean production methods or make the company more market orientated.

3 Evaluate these **two** options and recommend which option McLaren should use to maintain its competitive advantage.

(20)

A competitive advantage is something a business has over another business ^{such as} a USP, which help them differentiate.

If the McLaren Ltd were more market orientated they would closely monitor changes in the market and try to gain larger market shares. They would be less product orientated, this would mean that they wouldn't focus on gaining their USP as ~~they have a luxury cars so would have many~~ instead focusing on or ~~in~~ improving the products technology or aesthetics instead advertising etc. Advertising would increase demand ^{and} ~~however~~ it would give ^{an} competitive advantage, ~~in which being~~ lean production as they could promote their USP ~~was~~ and may become a generic brand, which would be competitive advantage as

It would allow them differentiate from other business.

Lean production is the method where there is ^{zero} ~~no~~ defect, this means that every car sold is upto its best quality it could be.

This method will ~~will~~ maintain customers as they will be ~~have~~ ~~customers~~ ~~delight~~ due to the top quality. However, it won't allow them to promote their cars as not market orientated.

In conclusion, I think that the company will gain a competitive advantage if using lean production rather than ^{being} market orientated, as the company will focus on the product rather than the market. The

Product ~~will~~ is what is sold not the market, the product ~~will~~ could gain a USP which could be the best quality ^{product} car you will ever get if using lean production, the USP will gain more demand therefore more revenue but will be ^{have} ~~be~~ more

a competitive advantage. However, if market orientated could be aware of other companies won't become complacent.



This response examined 'market orientation' and 'lean production' in a rudimentary way. 'Market orientation' was not really understood properly with the candidate thinking that it was solely to do with marketing and that it does not involve improving the product. Virtually the whole of the first page was generic with only one reference to 'car' at the bottom of the first page. Lack of application continued into the second page where the candidate believed that 'lean production' was purely to do with zero defects (as per the case study) and did not really bring much extra understanding to the answer. There was a judgement but it was based on very thin analysis. This response was placed at the top of Level 1 with 4 marks.

To maintain its competitive advantage in the premium sports car market, McLaren Ltd could increase its use of lean production methods or make the company more market orientated.

- 3 Evaluate these **two** options and recommend which option McLaren should use to maintain its competitive advantage.

(20)

Lean production is production that uses less of everything such as space and materials.

Market orientation is when a business believes the customer is the most important factor rather than quality.

Market orientated option might be a good option as McLaren will respond to customers and work on the things the customers want, because it sells to rich people, they might want extra features in their McLaren and will be willing to pay for it. By listening to customer needs McLaren can

build customer loyalty and sustain sales revenue with consumers.

However, in the extract it says that McLaren is committed to quality and producing a car with zero defects. This suggests that McLaren is more product orientated as quality matters. In the extract it also said that it gives them a competitive advantage which suggests McLaren should stay with product orientation rather than market orientation.

If McLaren were to increase lean production, this means that McLaren would cut wastage by using less of everything. Such as time and raw materials. By reducing wastage, cost are decreased overall for McLaren and this enables McLaren to harvest more profit and reducing costs ^{which} gives competitive advantage.

However, by reducing the use of everything quality may suffer and therefore ~~volume~~ ^{volume} of sales may be reduced as consumers will switch to competitors for ~~price~~ such as Aston Martin, for better quality.

Overall market orientation might be the best option for McLaren to gain competitive advantage as they'll respond to customers demand, making the customers happy. They'll remain loyal to the business and

maybe even suggest McLaren to a friend which will increase sales volumes and therefore profit and giving McLaren competitive advantage.

Also because lean production may cause the quality to suffer resulting in customers going to competitors.



ResultsPlus Examiner Comments

This response considered both options well and offered a solid articulation of the 'pros' and 'cons' of both 'lean production' and 'market orientation' before coming to a final judgement. There was consistent use of context throughout. Thus, it was placed in solid Level 3 territory with 12 marks. To reach Level 4 the candidate needed to develop a sharp understanding of 'competitive advantage' within their answer.

To maintain its competitive advantage in the premium sports car market, McLaren Ltd could increase its use of lean production methods or make the company more market orientated.

3 Evaluate these **two** options and recommend which option McLaren should use to maintain its competitive advantage.

(20)

Lean production is any system or method that ~~also~~ increases efficiency in a business. An advantage of McLaren using lean production is that it will lower costs of the business. This is because production will be more efficient, meaning less money and time is being spent on producing the premium cars. Using lean production would mean that McLaren could produce their premium cars for less money, giving them an even higher increase in profits. This profit could be hugely useful to McLaren in reinvesting in their business. This extra finance will allow McLaren to do more marketing campaigns, or increase research and development to create better products for customers. This overall creates a competitive advantage of having more investment to compete in rivals in such a high revenue market.

However, lean production could mean that McLaren are only focusing on making everything more efficient. ~~The consumer expectations of McLaren~~ The focus on Lean production could cost McLaren money to constantly monitor their progress. ~~It~~ It could also be time consuming to carry out checks on lean production. Because of this, McLaren may actually dismiss other business objectives. It could cause a lack of quality, which could be dangerous for McLaren as they are premium car producers, so if quality drops in the eyes of the consumer, they ~~will~~ may buy from other premium sports cars.

Being market orientated is about basing the product around the views and beliefs of the market, catering for the market's ~~that~~ needs and preferences.

An advantage of being market orientated is that customers will have their preferences ~~built~~ built in to the product, and will urge consumers to buy. Listening to a ~~premium sports car market~~ premium sports car market is important as ~~the~~ £1 million for a car is a lot

and people may not buy another car, so ensuring that McLaren is market orientated is ~~important~~ greater to persuade ~~the~~ people of the market to buy.

Listening to the market gives the competitive advantage of customer needs being catered for instead of rivals just trying to make a profit.

However, ~~being~~ being market orientated can have its disadvantages as it could cost a lot of money for research and development, and trying to ~~produce~~ produce supercars ~~that~~ that suit the whole market may not be achievable. McLaren aims to have zero defects, but if they make cars based on market preferences, it may involve them producing multiple times with errors, and may also cost a lot to get machinery to fit specific needs.

Overall, I firmly believe that McLaren should increase lean production uses in order to gain a competitive advantage. The market for supercars has had a huge increase in demand which means that McLaren have ~~had~~ huge amounts of sales, making 22390 more profit. ~~By~~ Using lean production methods, costs can be minimised and the profit margin would

Increase further, in future years. McLaren are aiming for zero defects, and using lean production which will increase the efficiency of production and help increase the margin. The products will be produced quicker and cheaper, meaning more time and money can be spent on expanding and increasing that competitive advantage. The ~~interest~~ interest rates for the UK are at an all time low, which supports McLaren and McLaren reducing costs and time waste which ~~will~~ enable them to charge a lower price, and get an advantage by selling cheaper than competitors. ~~People are more likely to~~

I would personally focus on decreasing costs of production, by ~~not~~ having a Just in time stock system which will enable McLaren to order ~~stock~~ only when needed. This saves money from being tied up in stock, and will increase lean production. McLaren could then charge a slightly lower price ~~and~~ while offering high quality cars to people. Since they sell across the world, the exchange rate may persuade off buying a premium car, but by lowering the price, people are more likely to purchase from McLaren.



ResultsPlus Examiner Comments

This answer was much more thorough than the previous example. It included more application and the chains of analysis were much more developed and the candidate used more specific business terminology. There was a judgement made and there was reference to competitive advantage. However, the focus on competitive advantage was not as sharp as it could have been which is why this response was placed just inside Level 4 with 16 marks.



ResultsPlus Examiner Tip

To have the best chance possible of reaching the top level, make sure that you evaluate both options, make a choice and then within your justification focus on the third element clearly. In this case the third element was 'competitive advantage'.

Paper summary

Based on the responses seen throughout the marking process, centres are offered the following advice for future examination series:

- Ensure candidates know the full list of formulae. There has to be a minimum of 16 marks of 'calculate/construct' questions spread out amongst the two examination papers that make up the AS level.
- Always show the formulae and the workings used since this is usually the difference between some marks and zero marks.
- Learn key terms in the specification. 'Productivity' and 'Inflation' were badly understood in this examination series and contributed to the decline in the average mark across the paper.
- Remember to include evidence of 'application (AO2)' in 'explain' and all 'levels of response' questions. 'Application (AO2)' is, more often than not, the forgotten written skill.
- In question 3, remember that either an option or the overall factor that the two options affect (in this year's case 'competitive advantage') may be taken from Theme 1. This question is designed to be synoptic in nature.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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