



Examiners' Report

June 2018

GCE Business 8BS0 02

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.



Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus. Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

June 2018

Publications Code 8BS0_02_1806_ER

All the material in this publication is copyright
© Pearson Education Ltd 2018

Introduction

This report provides feedback on 8BS02 'Managing Business Activities', the second paper which comprises the AS Level qualification in Business. This report should be used by centres to provide teachers and students with guidance as to how to approach the various question types going forward. It could be used to fine-tune the approach candidates' use in answering the questions. The exemplars contained within this document are designed to highlight common errors and to illustrate high-quality answers that are placed towards the top end of the mark scheme.

This year the performance of the cohort was somewhat lower than in previous years with the mean mark falling to 36.1/80 in 2018. In 2017 the mean mark was 41.9/80. Thus, average performance on 8BS02 declined by 13.8%. Unusually, the decline in performance in 8BS02 was mirrored by an offsetting rise in performance in 8BS01 'Marketing and People'.

Question 1 (a)

This question tests pure knowledge. All of the definitions are terms taken directly from the specification. As per previous years, an accurate definition scores 2 marks. Responses which demonstrate some understanding can score 1 mark. The mean mark for this question was 0.97/2 and the modal mark was 1.

Considering as many as 8 marks, (10% of the exam paper) come from definitions, it is recommended that centres construct a 'definitions list' for their students to learn.

1 (a) What is meant by efficiency?

(2)

Efficiency is the amount of something produced in a period of time



This definition demonstrates no understanding of efficiency. The candidate is simply referring to 'total production'. It scores 0 marks.

1 (a) What is meant by efficiency?

(2)

where a business operates using particular management systems / methods in order to minimise waste and errors.



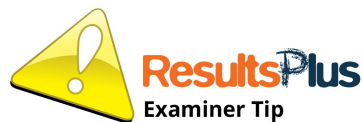
This response shows some understanding of efficiency through 'minimise waste and errors'. Thus, it scores 1 mark.

1 (a) What is meant by efficiency?

This is when the business produces goods / services at the minimum average total cost. ⁽²⁾



This response is a precise definition of efficiency. The candidate scores both marks for 'produces goods and services at the minimum average total cost'.



Learning definitions is a 'quick fix' to boost a candidate's grade. Far too many candidates squander the opportunity to secure full marks on these straightforward question types.

Question 1 (b)

This question, again, tests pure knowledge. All of the definitions are terms taken directly from the specification. As per previous years, an accurate definition scores 2 marks. Responses which demonstrate some understanding can score 1 mark. The mean mark for this question was 1.06/2 and the modal mark was 2. Thus, candidates found this definition relatively straightforward compared to the equivalent question in 1(a).

(b) What is meant by capacity utilisation?

(2)

Capacity utilisation is when you use to
the stock and make a use of ~~the~~
the product.



ResultsPlus
Examiner Comments

The candidate has demonstrated no understanding of the term at all. Understanding could have been demonstrated via a written definition or the formula. This response scores 0 marks.

(b) What is meant by capacity utilisation?

(2)

Capacity utilisation shows a business how effectively
their workforce and machinery are working as a percentage.
$$\frac{\text{Maximum possible output}}{\text{Current output}} \times 100$$



The candidate has provided a written definition and a formula. The formula is incorrect. However, there is some understanding in the written definition, through 'how effectively their workforce and machinery are working as a percentage'. Sadly, the candidate does not state what it is a percentage of. Thus, this candidate scores 1 mark.

(b) What is meant by capacity utilisation?

(2)

Capacity utilisation is actual output divided by maximum output multiplied by 100. It shows how the business's output over how many ~~many~~ can be made.

Capacity utilisation = $\frac{\text{actual output}}{\text{maximum output}} \times 100$.



This candidate provides an accurate written definition and an accurate formula. There is no need for both. The candidate is awarded 2 marks.



In definition questions, a formula (where appropriate) is often the fastest way to secure all of the marks on offer.

Question 1 (c)

'Calculate' questions are always marked in the same way. If the correct answer is given - the candidate gets all 4 marks. If the answer is wrong, examiners are then instructed to potentially award 1 mark for an accurate formula with a further 2 marks for correct workings. Thus, if candidates set out 'Calculate' questions clearly they reduce the risk of scoring zero marks. All of the quantitative skills that could be tested in the examination are highlighted in Appendix 3 of the AS Business specification on page 37. Centres are, again, recommended to provide candidates with a 'formula sheet' to learn.

This question was a simple 'percentage change' question using index numbers. The mean mark was 2.58/4 and the modal mark was 4. This perhaps indicates that either candidates secured all 4 marks or 0 marks. The high standard deviation adds weight to this theory.

(c) Using the data in Extract B, calculate the percentage increase in the world sugar price from September 2015 to March 2016. You are advised to show your working.

(4)

~~90~~ - 117 117 - 90 = 27%



The candidate has not stated the correct answer. Therefore, examiners are instructed to look for possible marks for workings or a formula. There is no formula but the candidate has given the difference between the old and the new index numbers through '27'. Therefore, 1 mark could be awarded.

(c) Using the data in Extract B, calculate the percentage increase in the world sugar price from September 2015 to March 2016. You are advised to show your working. (4)

$$\frac{\text{New} - \text{old}}{\text{old}} \times 100.$$

$$\frac{117 - 90}{90} = 30\%$$



ResultsPlus
Examiner Comments

The candidate has identified the correct answer of '30%'. As a result, they automatically qualify for all 4 marks. Therefore 4 marks are awarded.

Question 1 (d)

'Calculate' questions are always marked in the same way. If the correct answer is given - the candidate gets all 4 marks. If the answer is wrong examiners are then instructed to potentially award 1 mark for an accurate formula with a further 2 marks for correct workings. Thus, if candidates set out 'Calculate' questions clearly they reduce the risk of scoring zero marks. All of the quantitative skills that could be tested in the examination are highlighted in Appendix 3 of the AS Business specification on page 37. Centres are, again, recommended to provide candidates with a 'formula sheet' to learn.

This question tested candidates' ability to understand how to interpret a break-even diagram. Many candidates struggled to do this compared to the previous 'Calculate' question in 1(c). The mean mark for this question was 1.7/4 and the modal mark was 0. Again, the high standard deviation suggests that candidates either secured all 4 marks or 0 marks. This time, however, a greater proportion of candidates scored 0 marks.

JE Wilson & Sons Ltd produced a break-even chart to show the profitability of the Kendal Mint Cake production line in its new factory.

This is shown in Figure 1 below.

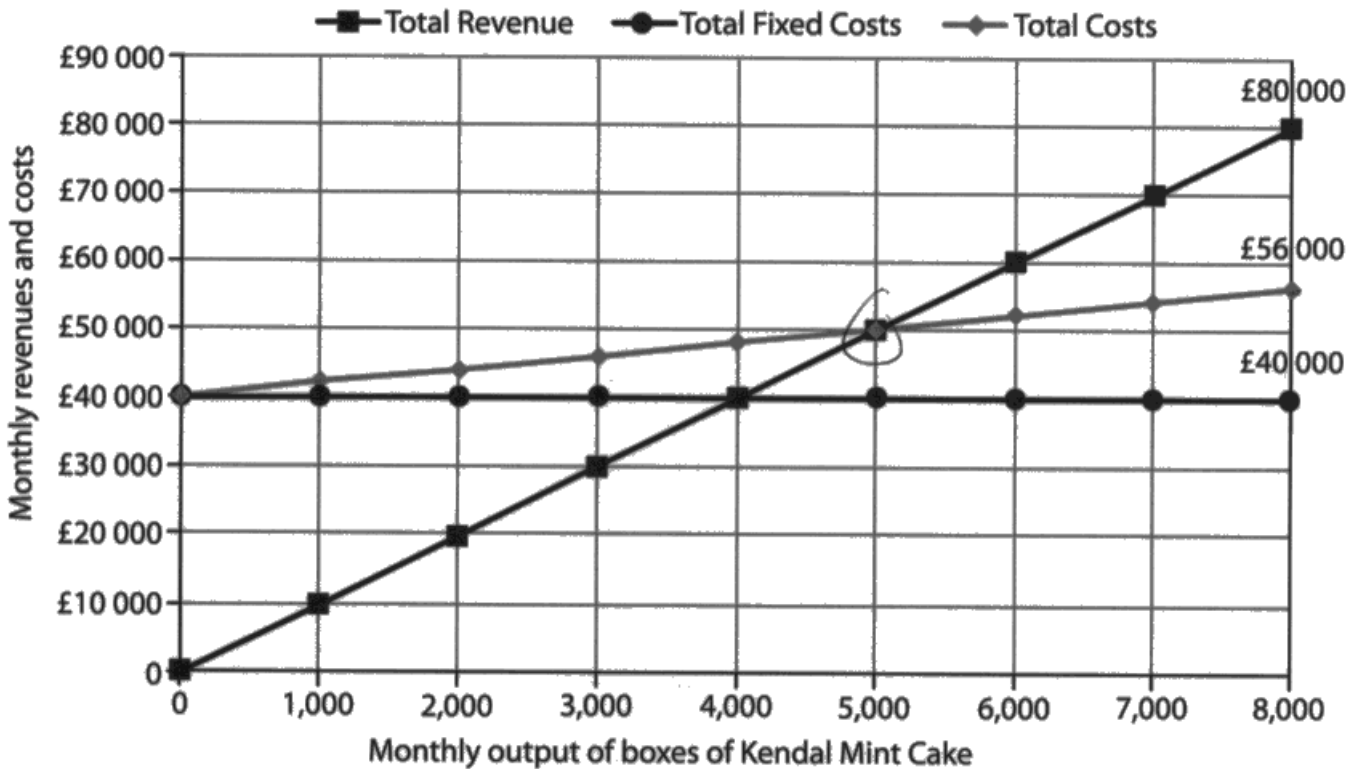


Figure 1

(d) Using Figure 1, calculate the contribution per box of Kendal Mint Cake. You are advised to show your working.

$$56000 - 40000 = 16000$$

$$16000 = VC \quad 16000 \text{ VC at } 8000$$

$$\frac{16000}{8000} = 2$$

$$SP = £10$$

$$£10 - £2 = (£8)$$

Contribution is £8.

$$\frac{40000}{8} = 5000$$

$$5000 = BEP$$

The candidate has clearly demonstrated the correct answer of £8. Therefore, all 4 marks are automatically awarded and the examiner did not have to consider the workings or formula.

JE Wilson & Sons Ltd produced a break-even chart to show the profitability of the Kendal Mint Cake production line in its new factory.

This is shown in Figure 1 below.

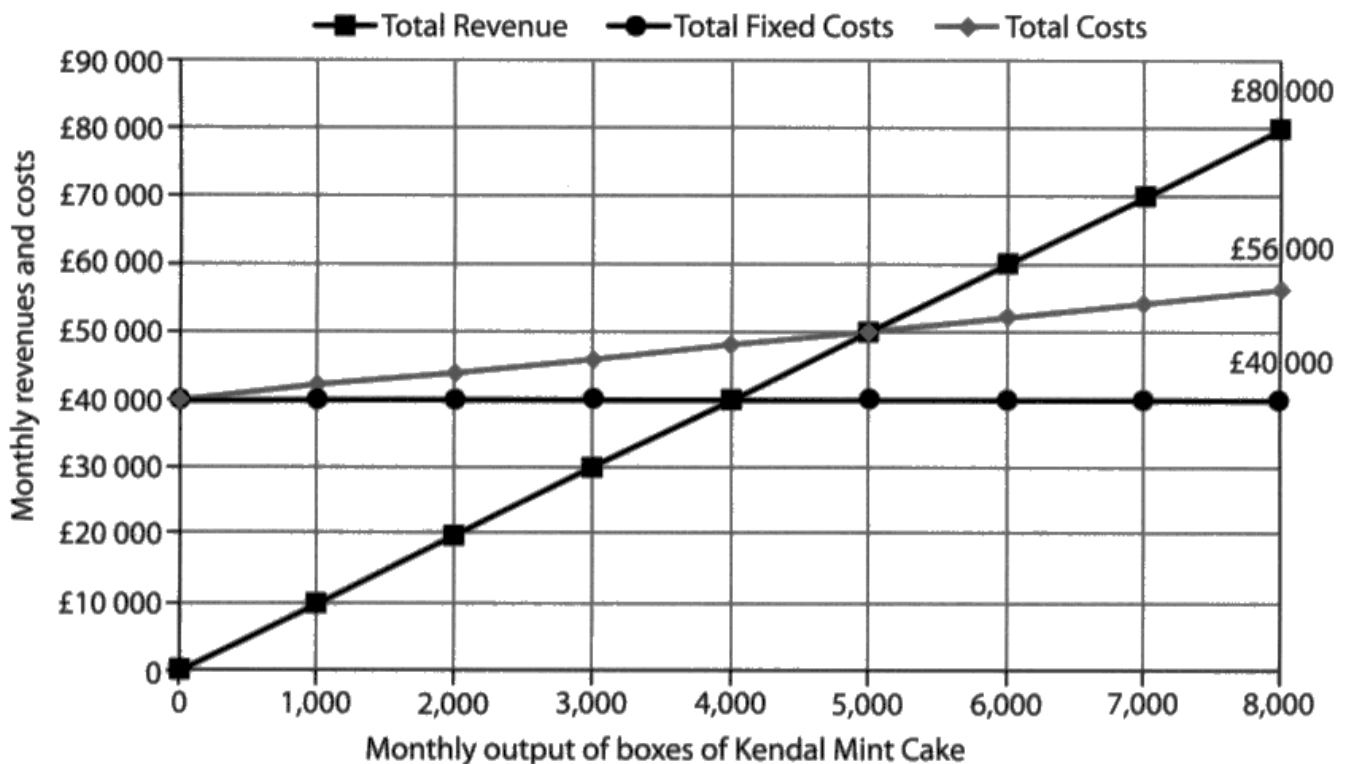


Figure 1

(d) Using Figure 1, calculate the contribution per box of Kendal Mint Cake. You are advised to show your working.

(4)

$$\text{contribution} = \text{selling price} - \text{vc per unit}$$

$$\text{vc} = \text{FC} + \text{TC}$$

$$10,000 - 1,000 = 9,000$$

$$40,000 + 80,000$$

$$= 120,000$$

$$£10,000 - 120,000$$



The candidate has not shown the correct answer. Therefore, examiners are instructed to look for a formula and any workings to award marks. The candidate has given an accurate formula for 'contribution per unit', but the workings do not make any sense in terms of answering the question. Therefore, the response is awarded 1 mark.

Question 1 (e)

There is a lot for a candidate to do in an 'Assess two...' question. As a result, candidates should view it as an 'evaluate-light' question and there is certainly no need for a conclusion. This question was on the limitations of using break-even analysis as a planning tool. Many candidates struggled, and more often than not, resorted to guess work. The average mark was 3.49/8 and the modal mark was 4.

(e) Assess **two** likely limitations to JE Wilson & Sons Ltd of using break-even analysis as a planning tool.

(8)

One limitation to JE Wilson & Sons Ltd of using break-even analysis as a planning tool is that they'd not know how to exceed past the break even point. This is because their efforts and planning would be going into achieving a break even. However by breaking-even the company will be benefitting as they'll be making back the money which was spent/invested.

Additionally, another limitation of using break-even analysis is that it's not the most effective planning tool and as calculation errors could be made which could affect the accuracy of the analysis which doesn't provide efficient planning for JE Wilson & Sons Ltd.



There is not much in this response at all. The first paragraph reads like total guesswork by the candidate and the second paragraph is only marginally better. If you re-read the response, it is devoid of any application at all and the answer is one-sided. The analysis contains simple common-sense assertions. The response is placed in Level 1 and 1 mark is awarded for some vague understanding in the second paragraph.



There was no way an answer to this topic could be guessed. Topic spotting in revision comes with significant risks attached.

(e) Assess **two** likely limitations to JE Wilson & Sons Ltd of using break-even analysis as a planning tool.

(8)

Using breakeven analysis as a planning tool has its limitations.

Firstly, if ~~you plan~~ JE Wilson & Sons Ltd use that to plan ahead or use it as an indicator of profit it will not be successful. This is because it cannot ~~account~~ include any possible unforeseen expenditures in the future. For example: The cost of sugar rising.

Also, break-even analysis is based on a firm selling an expected amount, but in the real world there is no way to ~~on~~ prematurely secure sales in the confectionary market.

To solve these problems, the break even analysis needs to be flexible and able to adapt to changes.



ResultsPlus
Examiner Comments

This answer has two valid limitations, there is some very limited analysis and a token piece of application through the use of the words 'confectionary' and 'sugar'. The response demonstrates no evaluation at all and is one-sided. The answer can reach Level 2 and 3 marks are awarded.

(e) Assess **two** likely limitations to JE Wilson & Sons Ltd of using break-even analysis as a planning tool.

(8)

Break even level of output is where total revenue equals total costs. In figure 1 this occurs at 5000 boxes of kendal mint cake per month. The problem with using break even analysis is that it assumes that the company only makes one type of kendal mint cake e.g) 200G bar. Therefore there is a standard contribution of 80p per bar. In reality the company probably makes lots of different sized bars for walkers e.g) 50 G snack bar. Therefore each bar will have a different contribution. As a result it is likely that there will be many different break even points across the variety of confectionary bars produced. This limits its use as a planning tool. Another problem is that the analysis assumes that the average variable costs stay constant this is unrealistic. As the company makes more bars it will place bulk buying orders with sugar and peppermint suppliers, reducing the average variable costs and increasing contribution per unit. Therefore the company is likely to break even at several different combinations of output. However, break even analysis could be useful, since it

gives the company a basic minimum sales target. Which although being simple will give it some idea of level of output to aim for. It can also consider what happens if sugar prices rise and the impact of break even. Which means it may have some limited use as a planning tool for a confectionary producer.



This answer is as good as it gets. The candidate shows a clear understanding of the limitations of the break-even model and there are clear chains of analysis with seamless use of application. Both of the two limitations are evaluated. As a result, this response is placed at the top of Level 3 and 8 marks are awarded.



Note how much easier this response would have been to read if greater use of paragraphs had been made by the candidate.

Question 1 (f)

This question was fairly well-answered, with most candidates being able to use the case-study to recognise that there were several factors that led to the failure of JE Wilson & Sons Ltd. The difference between the more able candidates, and those at a more moderate level of understanding, was that the more able could go beyond para-phrasing the case-study. They could also develop chains of reasoning as to why rising costs could have led to the failure of the business, whilst other factors may also have played a more/less important role. The more able candidates were able to get under the skin of the case-study and articulate their chains of reasoning in a way which was in-tune with the business.

In this question, the mean mark was 4.92 and the modal mark was 5.

(f) Assess the extent to which rising costs of raw materials may have led to the failure of JE Wilson & Sons Ltd.

(10)

JE Wilson & Sons ~~was~~ ^{has} a cake manufacturer.
This meant they relied on a lot of raw materials for their products. The dependency on the raw materials was their undoing. Due to the rise in cost for raw materials, JE Wilson & Sons could not afford this rise in costs. As costs for items like sugar rose, the business and its break-even analysis plan could not factor this in, thus making the company slowly lose more money.



The candidate has demonstrated some understanding and has answered the question. It is very basic though and there is limited analysis that goes beyond common sense. There is some low level application through 'cake' and 'sugar' and there is no attempt at evaluation, so the response is one-sided. As a result, this response is placed on the Level 1/2 border with the answer showing just enough to reach the bottom of Level 2 and 3 marks.



The case-study is provided to help with context (application) and that is it. Avoid the temptation to re-write it.

(f) Assess the extent to which rising costs of raw materials may have led to the failure of JE Wilson & Sons Ltd.

(10)

It could be argued that the rising costs of raw materials may have led to the failure of JE Wilson & Sons Ltd as sugar was their main ingredient of their products. For example in extract A it states that "the rise in price of raw materials such as sugar, led to the company making large losses." This ~~case~~ suggests that the rise in price of raw materials led to the failure of their business as they were very reliant on sugar as their cakes, especially their Kendall Mint Cake, were in fact sugar based meaning if sugar prices rised they would have to spend more money on purchasing sugar ergo ^{increasing} ~~lowering~~ their costs and possibly leading to critically low profit levels.

On the other hand it could be argued that the rise in raw materials did not lead to the failure of Wilson & Sons but other factors such as them moving factories. For example "The move to the new factory also created serious cash-flow problems for the company." This suggests that JE Wilson & Sons failed because they were spending more money than money coming into the business which caused cash flow problems which may have led to the failure of their business as they might've found it hard to source finance due to this cashflow problem.



In this response the candidate uses the first paragraph to explain why the rising cost of raw materials may have caused the failure of the business. Some quotes are used from the case-study to provide some low level application. The second paragraph provides balance and there is again some quoted contextualisation from the case-study. The analysis is still quite thin and there are only basic chains of reasoning. There is no overall conclusion. The response is placed at the bottom of Level 3 and 5 marks are awarded.



Notice how the use of a paragraph structure can make it easier for an examiner to spot the counter-balance (evaluation) within an answer. This candidate starts their second paragraph with 'On the other hand...'

(f) Assess the extent to which rising costs of raw materials may have led to the failure of JE Wilson & Sons Ltd.

(10)

Business failure is when business is no longer able to sell on market, which can be caused by either financial or non-financial causes. Rising costs of raw materials would be a financial business failure.

Rising costs of raw materials meant that the variable costs for the company increased which in turn affected the total costs, causing loss in profitability. The cash-flow problems could lead to less working capital so company would ~~have~~ not have money to pay for expenses such as bills for their newly built factory. This could lead to JE Wilson & Sons having to increase their prices; if the costs are increased due to ~~exchange rates~~ ^{cost-pull inflation} and pound depreciation, ~~the~~ their competitors are likely to also increase their prices as they face the same raw materials supply issue so the increase in rising costs would not be the cause of their business failure. However if the rise of the cost of raw materials only affects JE Wilson & Sons Ltd - for example this being the cost of sugar that they need a lot whereas their competitors tend to use less due to market change - then they are likely to lose their competitive advantage which would affect their sales volume and therefore sales revenue.

Overall, the rise of costs of raw materials have impacted negatively affected ~~the~~ JE Wilson & Sons Ltd, however it was not the direct cause of the business failure; the increase in variable costs have likely affected the profitability of the company but ~~considered~~ considering that the business prospered for many years and ~~have~~ ^{had} strong brand, it was unlikely to cause business failure. Other factors such as poor capacity utilisation would significantly impacted the fixed costs, bearing more effect on total costs as well as the company did not adapt to changes in confectionary market, which was more likely to be the cause.



ResultsPlus
Examiner Comments

There is a clear use of chains of reasoning in this response and the use of application is more subtle since it goes beyond simply quoting or repeating elements from the case-study. Counter-balance is provided in the sentence that starts with the word 'However...' and on the second page there is an overall conclusion. This response is placed in Level 4 and awarded 8 marks.

Question 2 (a)

This question tests pure knowledge. All of the definitions are terms taken directly from the specification. As per previous years, an accurate definition scores 2 marks. Responses which demonstrate some understanding can score 1 mark. The mean mark for this question was 0.76/2 and the modal mark was 0.

2 (a) What is meant by capital intensive?

(2)

Capital intensive means it is an expensive process production process



This response is sadly typical of many. The candidate has misunderstood what 'capital' meant in this context. 0 marks are awarded.

2 (a) What is meant by capital intensive?

(2)

Capital intensive is where a business will use large amounts of machinery to produce products.



The candidate has an understanding in that 'a business will use large amounts of machinery to produce the product'. This allows the candidate to score 1 mark. To secure the second mark, there needed to be some reference to 'labour'.

2 (a) What is meant by capital intensive?

(2)

Capital intensive is when ^{more} machinery is used to produce goods rather than labour.



ResultsPlus
Examiner Comments

The candidate has shown understanding through 'more machinery is used to produce goods' and critically deals with the 'intensive' part of the definition by then stating 'rather than labour'. This response scores 2 marks.

Question 2 (b)

This question was not a 'define' question, but still tested raw knowledge. This question proved to be a good discriminator amongst candidates. Candidates either knew the answer or they did not. The mean mark was 0.81/2 and the modal mark was 0.

(b) Give **two** examples of current assets.

(2)

A car
A mobile phone.



This candidate has no understanding of what 'current assets' are at all. 0 marks are awarded.

(b) Give **two** examples of current assets.

(2)

£100 Money in the bank and shares
stock.



The candidate scores 2 marks, one mark for 'money in the bank' and one mark for 'stock'.

Question 2 (c)

'Calculate' questions are always marked in the same way. If the correct answer is given - the candidate gets all 4 marks. If the answer is wrong examiners are then instructed to potentially award 1 mark for an accurate formula with a further 2 marks for correct workings. Thus, if candidates set out 'Calculate' questions clearly they reduce the risk of scoring zero marks. All of the quantitative skills that could be tested in the examination are highlighted in Appendix 3 of the AS Business specification on page 37. Centres are, again, recommended to provide candidates with an accurate 'formula sheet' to learn.

This question required candidates to calculate the 'acid-test' ratio. Whenever real world figures are used that are likely to result in an answer which is not a whole number, the question will state 'to two decimal places'. This is a common feature of all of the Business papers at both AS and A Level. Candidates found this question fairly straightforward with a mean mark of 2.31/4 and a modal mark of 4.

(c) Using the data in Extract D, calculate, to 2 decimal places, the acid test ratio for Willie's Cacao Ltd in 2016. You are advised to show your working.

(4)

$$\text{acid test ratio} = (\text{Current assets} - \text{Stock}) \div \text{Current liabilities}$$

$$\frac{(\pounds 1,177,472 - \pounds 666,386)}{\pounds 445,718}$$

$$= 1.146657752$$

$$= 1.15$$



ResultsPlus
Examiner Comments

The candidate has given the correct response to two decimal places. This means that they automatically secure all 4 marks.

(c) Using the data in Extract D, calculate, to 2 decimal places, the acid test ratio for Willie's Cacao Ltd in 2016. You are advised to show your working.

(4)

Current liabilities $\times 100$
non-current liabilities

$$\frac{145718}{125332} \times 100 = 355.0066$$

Acid test ratio = 355.01



ResultsPlus
Examiner Comments

This candidate has not given the correct answer and the formula they have used is incorrect. 0 marks are awarded.

Question 2 (d)

'Explain' questions are always marked in the same way. There is 1 mark allocated to 'knowledge', 2 marks to 'application' and a further 1 mark for 'analysis'. More often than not candidates tend to write generic answers, thus limiting their responses to a maximum of 2 marks.

This question asked 'Explain how limited liability might affect Willie's Cacao Ltd'. Unfortunately, many candidates interpreted the question as 'how limited liability might affect Willie'. Thus, many responses failed to score above 1 mark since the strands of development focused on the impact on 'Willie (a shareholder)' rather than the company. This is a good example of candidates not reading the question closely enough.

The mean mark on this question was 1.15/4 and the modal mark was 1.

Willie's Cacao Ltd is a private limited company.

(d) Explain how limited liability might affect Willie's Cacao Ltd.

(4)

limited liability is when the owner of the limited business would only lose the amount he invested in to a business, if the business was to not succeed and lose all profits -



This is common of many answers seen. The candidate has offered a demonstration of 'knowledge' by giving a definition of 'limited liability'. Therefore 1 mark is awarded.

Willie's Cacao Ltd is a private limited company.

(d) Explain how limited liability might affect Willie's Cacao Ltd.

(4)

Limited liability is when the owner/investors are only liable for the debt of the company up to the value of money they have invested. This will allow Willie's company to get more invested in the business as they are not fully liable for lots of debt the company may have having the risk of investment. This allows him to generate more capital from investors. Further more, Willie himself can feel more comfortable investing more capital into the business as if it fails it will not affect him financially.



ResultsPlus
Examiner Comments

This candidate has done a lot of work in this answer, but the response **CANNOT** score all 4 marks because it is generic and the candidate has not demonstrated all of the skills (assessment objectives) that the question was designed to test. Therefore 2 marks are awarded.

Willie's Cacao Ltd is a private limited company.

(d) Explain how limited liability might affect Willie's Cacao Ltd.

(4)

Limited liability means that the owner of the business can only lose as much as he has invested in the business. Limited liability means that he will be able to sell shares in his business in order to raise finance to buy more farms to grow Criollo cocoa beans. This would mean that he will be able to expand his production and sell more chocolate bars to high end retailers like Waitrose.



This answer only just scores 4 marks. The first sentence demonstrates knowledge and then critically the candidate then looks at the impact of 'limited liability' on the business through 'he will be able to sell shares in his business to raise finance'. This allows the 'analysis' mark to be scored. There are then two further strands of development that contain 'application' allowing the response to just about reach 4 marks. There are very few 4 mark answers to this question.



If you understand the assessment objectives the question is designed to test, you then should be able to answer the question with a tailored approach that maximises your scoring capability.

Question 2 (e)

In this question some candidates confused interest rates with 'exchange rates' and 'inflation rates'. Those candidates that did know what exchange rates were relied on assertions, rather than analysis, and any resulting chains of analysis were weak e.g. 'this means people will have more money and buy more'. The mean mark for this question was 3.32/8 and the modal mark was 4.

In August 2016, the Bank of England cut the UK base rate of interest from 0.5% to 0.25%.

(e) Assess **two** likely benefits of this fall in UK interest rates on Willie's Cacao Ltd.

(8)

One benefit of this is if interest rates fall the price of cocoa beans to be shipped over will not cost as much meaning the business could save money and maybe use that to expand on the business and make it bigger and better.

Also another benefit of this is that if interest rates fall the cost of ~~financing~~ ~~the business would fall also~~ cocoa beans would fall meaning the business does not have to worry about how much it will cost and also could result in more products being made meaning more sales which would increase profits which the business could also use to expand on the business.



The candidate has undoubtedly confused 'interest rates' with 'exchange rates'. Therefore, the candidate has not answered the question. There is perhaps some value in the notion that sales may rise towards the end of the answer but this is tenuous. The response is placed in Level 0 and 0 marks are awarded.



Make sure you do not confuse 'inflation rates', 'exchange rates' and 'interest rates' - otherwise you risk possibly scoring 0 marks.



Use the case-study to provide context - the more able candidates will go beyond simply copying out phrases from the case-study and will try to 'get under the skin' of the business.

In August 2016, the Bank of England cut the UK base rate of interest from 0.5% to 0.25%.

(e) Assess **two** likely benefits of this fall in UK interest rates on Willie's Cacao Ltd.

(8)

Rising Disposable Incomes \rightarrow consumers will now have to pay less on their mortgages meaning they will have more spare income to purchase chocolate. However, the premium chocolate market is very competitive therefore consumers are likely to purchase rivals such as Lindt instead. Therefore the increase in demand for Willie's Cacao will not be as large as expected due to the smaller than expected income elasticity of demand.

Lower Fixed Costs \rightarrow Any interest on bank loans the business has may fall. Therefore the contribution per bar of chocolate will pay off the fixed cost burden faster. As a result, the business will have a higher margin of safety from the result of the fallen break even point. However this depends on the type of loan the business has. If interest rates on the loan are fixed, then the reduction in the base rate would not reduce the fixed costs for the chocolate producer.



This response offers a total contrast to the first exemplar. There are two benefits and these are explained using the language of the subject. Application is seamlessly inter-woven into the response and this candidate has managed to get 'under the skin' of the business context. There is no conclusion, but there does not have to be in this style of question. Both benefits have some counterbalance, so the skill of evaluation is present. The response is placed in Level 3 and 7 marks are awarded.

Question 2 (f)

In this question the term 'lean production' encompasses several other business concepts such as Just In Time (JIT), Waste Minimisation, Total Quality Management (TQM) etc. Thus, there was a tendency for candidates to change the question and focus on just one aspect of lean production, rather than the entirety of the concept. The high standard deviation demonstrated that this question acted as an effective discriminator.

The mean for this question was 3.53/10 and the modal mark 5.

(f) Assess the extent to which lean production methods may allow Willie's Cacao Ltd to gain a competitive advantage.

(10)

⊕ lower costs → ↓ in ~~the~~ cost per unit

Lean production may allow Willie's Cacao Ltd to gain competitive advantage because it may lower costs of production. This may lead to lower costs per unit. Therefore increasing revenue. However if Willie's competitors, like Lindor, are also using lean production methods it is unlikely for Willie to gain a competitive advantage.

Lean production may allow Willie's Cacao Ltd to gain competitive advantage because it may decrease the amount of waste. This may lead to ~~the~~ less waste being disposed and Willie's Cacao Ltd being eco-friendly. Therefore decreasing the amount of pressure groups and ~~pressure groups~~ building Willie a positive brand image and competitive ~~ad~~.

advantage. ~~However~~ However this may not make Willie eco friendly as lean production uses alot of ~~energy~~ energy so Willie maybe emitting fumes into the air instead of disposing of waste.



This response was more typical of many answers that were seen. The candidate has provided a response which has simplistic analysis with some errors. For instance, in paragraph one the candidate links 'Lower costs per unit with increased revenue' which clearly makes no sense. There is a weak attempt at evaluation of the first and second point and there is no overall conclusion. The answer is also pretty much generic and no application could be found beyond 'Lindor'. On balance, it is decided that the Level 2 descriptor most accurately described this response and 4 marks are awarded.

(f) Assess the extent to which lean production methods may allow Willie's Cacao Ltd to gain a competitive advantage.

(10)

Lean production ~~mean~~ is a strategic focused of cutting waste and being more efficient. waste minimisation will decrease costs and therefore being able to lower prices, ~~but~~ this will ~~gain~~ let Willie's Cacao Ltd attract more ~~consumers~~ consumers having a competitive advantage of price.



This response never really gets going and the candidate has produced nothing more than an extended definition. There is no application and there is no evaluation. This response is placed in Level 1 and is awarded 2 marks.

(f) Assess the extent to which lean production methods may allow Willie's Cacao Ltd to gain a competitive advantage.

(10)

Lean production is a production method in which waste is minimised. If waste is minimised for things such as chocolate bars it could increase efficiency because the lowest amount of inputs ~~input~~ ^{would} be used to produce the highest amount of output. This could decrease the unit costs per chocolate bar hence increasing the gross profit margin for each bar so a larger share of the sale price (£1.90) would become profit. ~~However~~ However ~~using~~ this method of production could possibly lower the quality of the chocolate produced. This could mean that Willie's Cacao Ltd could lose its ability to charge premium prices like £1.90 because of its reduced quality hence decreasing Willie's Cacao Ltd's revenue, hence making them less competitive against companies like Cadbury's.

Lean production could also give Willie's Cacao Ltd an image as an ~~ethical~~ ^{ethical} company because they are reducing waste ~~to~~ hence they could be reducing pollution. This green image could ~~enable~~ ^{allow} them to charge a premium price higher than £1.90 for their chocolate bars. This would increase their gross profit margin, hence making Willie's Cacao Ltd more competitive against companies such as-

- Kit Kat. On the other hand ~~they~~ other companies such as Kit Kat already have an ethical image because they are fair trade. These competitors don't charge premium prices so ethical consumers might choose an ethical chocolate company such as Kit Kat rather than Willet's Cacao Ltd because Kit Kats sell for around £0.60 rather than Willet's chocolate bars that sell at £1.90. This could make Willet's cacao ^{Ltd} less competitive in the market.

In conclusion depending on how ~~many~~ ^{much} customers are willing to pay for ethical goods, lean production could help Willet's Cacao Ltd gain a competitive advantage over companies such as Cadbury's by reducing costs per unit and reducing pollution in the form of waste.



This candidate knows what lean production is and is able to provide a strong analysis, linking together technical terms whilst also incorporating application. Each point is evaluated and this leads to a conclusion which contains the 'it depends rule'. The response is placed in Level 4 and is awarded 9 marks.

Question 3

This question is a synoptic question where elements from the Theme 1 and Theme 2 specification are combined.

Most candidates were able to write something sensible about the pros and cons of selling an increased range of products on AO.com's website and, likewise, were able to consider the pros and cons of improving AO.com's branding. The third element to this question was that candidates had to consider these two options with regards to increasing AO.com's profit. The main problem with responses to this question was that several candidates para-phrased the case-study material and/or used a common sense approach to answering the question. Thus, rather than providing developed chains of reasoning, a fairly large proportion of candidates produced answers which were generalised and made assertions instead. Thus, the mean mark for this question was 9.13/20 and the modal mark was 9. This reflects the fact that most of the answers read were either in Level 2 or 3.

Centres are reminded that all of the assessment objectives are being considered in the higher-tariff questions. Thus, for example, higher quality analysis could be undone by a generic approach that makes no use of the context. As a result, there were not many responses that were judged to reach Level 4 on the mark scheme. To reach Level 4 high levels of competency had to be reached across all four of the assessment objectives.

In order to increase its profits, AO.com could either sell a wider range of products through the internet or improve its branding.

3 Evaluate these **two** options and recommend which option AO.com should use to increase its profits.

(20)

online selling would be easier if you have a website or AO.com can place its products on websites like Amazon or eBay because items like washing machine people would consider it doing online because of the size, However the customer don't know if the product is reliable or not so AO.com should focus on its branding and make their product popular in the market, also they can advertise the brand using internet on a social media platform such as Facebook because half our generation use social media platform. AO.com can collaborate with reliable company and through them AO.com can do its branding.

AO.com should use internet because more sells make more profit and it will also increase its profits.



ResultsPlus
Examiner Comments

This response is a thin response to the question. Profit is not referred to until the end of the response and there is not much by way of development or analysis of the two options. Evaluation is virtually non-existent and the section on branding focuses on how AO.com could improve their brand which is not what the question is asking. This response is placed in Level 1 and awarded 4 marks.

In order to increase its profits, AO.com could either sell a wider range of products through the internet or improve its branding.

3 Evaluate these **two** options and recommend which option AO.com should use to increase its profits.

(20)

One way in which AO.com can increase profits is by improving its branding. Branding is the image and reputation of a brand that gives a unique selling point. AO.com used ~~the~~ ^{the} slogan ~~and~~ 'AO - let's go' in order to increase brand recognition and sales. This helps improve profitability because if their brand is expanded and is made ~~so~~ more aware to customers, they will know they have a good quality product. In this way they can raise prices as they would have a good reputation. Demand would increase because more people would be aware of its products. The increase in demand would mean an increase in sales, which overall improves profitability. On the other hand by improving its brand it may lose its old remembered values ~~or~~ which followed ~~an idea~~ a £1 bet that drastically changed the way large domestic appliances were sold.

On the other hand they could sell a wider

range of products on the internet. One way in which this will improve its profitability is that because ~~more~~ trends of online trends becoming large.

Many people prefer to shop online and many people use the platform therefore increasing profitability for them as there would be an increase in demand. As well as this they can reach a larger target market on the internet. However they sell domestic appliances such as washing machines and fridges and are known for this.

If they start selling a wider range of products it would increase costs as it is expensive to bring forward new costs and advertise online.

They on the other hand they do not sell in retail stores so setting up a website would not add any additional costs for them as they already have a built in reputation. Adding new products could give consumers more choice and something new which may increase profitability.

Overall it may be better for them to improve their brand reputation. This is because they have grown their market share and have eliminated competition, such as Currys. Because of this to keep their customers they may ~~lower~~ ~~costs~~ improve their image to ensure customers have chosen to best brand. This would improve their profitability as they already

have changed the way in which domestic appliances are sold through online ~~sales~~ sales. To improve profitability adding a more unique selling point to their brand would strengthen them even more as they have already established a foothold in the market.

Adding products to the range would not increase profit as it is expensive to advertise, promote and get up new products into the market. As well as this customers would be unsure about what they have to offer so therefore ~~not~~ improving their branding will reduce costs more than ~~giving~~ ^{offering} a wider range of products.



This response is typical of what many answers looked like to this question. There is a fairly decent consideration of the pros and cons of both options with some context. The analysis and application are solid but a touch basic in places. There is no overall conclusion that ties the answer together but an adequate demonstration of the skills has been provided by the candidate. This response is placed toward the bottom/middle of Level 3 and 11 marks are awarded.

If AO has increased its advertising yet when consumers visit the website are disappointed by the product range, it reduces that sales volume and overall profitability. Therefore, increasing product range is a long term growth strategy to increase sales revenue to a level of increased profitability.

However, the magnitude of range of goods is also very important. The AO should not look to ~~increase~~ increase product range to a level that is unprofitable. If AO ~~chose~~ chooses a wider range of stock too wide range, the amount of ~~extra~~ extra cash stored in stock may be unprofitable and unprofitable to the business. For example, if AO choose to stock 20 different washing machines from an ~~amount~~ amount of 10 initially, the space used for storage of goods is required to be larger. This increase could, mainly, and can prove to be expensive to AO.

AO may choose to ~~improve~~ improve its branding. By improving brand image and identity it may increase attractiveness and website viewings. This is an essential part to a pure play business ~~and~~ without a distinguishable online brand image, site viewings and final sales volume is likely to be low. This will reduce the ability for AO to make substantial sales revenue + profits. Brand awareness + identity may also be

Successful in improving profits as it increases AD's ability to differentiate against competitors in domestic appliance stores such as Currys. Therefore with a more prominent brand position, AD can use this to develop catchy slogans such as AD - let's go and this allows them to operate at a national platform of competitors. It is also can lead to brand loyalty as consumers connect with a brand and its identity.

However, improving branding may be dependent on the success of advertising + marketing. Other marketing strategies can be more expensive than the profit they return if not differentiated ^{identifiable} enough. For AD to be successful in improving brand image + profitability it must ~~commit~~ ^{commit} to a long term awareness effort so that the expense can be worth it.

The business also recently started TV advertising to increase sales. However, the business may choose to invest in online branding + promotion due to the fact it is an online store. This is more likely to lead to website visits + final purchases. Improving brand image may also be unsuccessful if once a customer visits website they are disappointed by product range.

To conclude, I think for AD to improve profitability the best option would be to increase product range. This is due to the importance of the main product in the domestic appliance market and consumers brand loyalty to brands such as Dyson.

Therefore, by increasing product range + is a long term strategy in increasing customer satisfaction. The business is already scaling sales from Currys and is benefiting from a TV campaign so therefore already has a level of awareness. This demonstrates the ~~importance of increasing product range~~ ^{importance of increasing product range} to remain competitive in the ^{long run}. (Total for Question 3 = 20 marks)



This response is one of the few Level 4 responses that are seen. The candidate provides a thorough evaluation of both options with lots of contextualisation that goes beyond simply re-writing parts of the case-study that accompanies Question 3. The analysis is strong and this leads to a conclusion, where there is a recommendation with support. Middle/top Level 4 is deemed appropriate and the response is awarded 18 marks.



Examiners are instructed to find the level that best describes the answer that they have just read. They are then instructed to award a mark in the middle of that level and then make an adjustment if certain skills (knowledge, application, analysis or evaluation) are weak/excellent relative to that level descriptor. Thus, if you want your answers to reach Level 4 continually self-assess your work using the Level 4 marking descriptor.

Paper Summary

Based on the exemplars that have been seen by the Principal Examiner, centres and candidates are offered the following advice:

- Learn the key terms in the specification. This could account for as much as 10% of the marks available on the paper.
- Learn the formulae in the specification and set out 'calculate' questions clearly. Across 8BS01 and 8BS02 10% of the marks available have to be quantitative-based.
- In 'explain how' questions recognise that 2 of the 4 marks available are for application.
- Recognise that 8 mark 'Assess two...' questions do not require a conclusion.
- Recognise that 20 mark 'choice' questions will test understanding over both of the themes, since these questions are 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>

