

Business

Answers and commentaries GCSE (8132)

Paper 2: Influences of marketing and finance on business activity

Marked answers from students for questions from the June 2022 exams. Supporting commentary is provided to help you understand how marks are awarded and how students can improve performance.

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Answers and commentaries

This resource is to be used alongside the GCSE Business June 2022 Question paper 2 Influences of marketing and finance on business activity and inserts.

Section B

9-mark questions

Question 2.3

To pay for the sponsorship of a national skateboarding competition Skate4U Ltd is considering using £50 000 of its available overdraft at the current 12% annual interest rate.

Recommend whether Skate4U Ltd should use its overdraft to fund the sponsorship.

Give reasons for your recommendation.

[9 marks]

Mark scheme

Marks for this question: A02 – 3 marks, A03 – 6 marks

Level	Marks	Description
3	7-9	<p>Detailed analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • Sustained line of reasoning, which is coherent, relevant, substantiated with a focused conclusion that is fully justified. • Business areas are fully analysed. • Detailed application of interpretation of financial data including calculation of relevant figures.
2	4-6	<p>Sound analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • A line of reasoning, with a conclusion that has some justification. • Business areas are partially analysed. • Sound application of interpretation of financial data including calculation of relevant figures.

Level	Marks	Description
1	1-3	<p>Basic analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • Basic line of reasoning with a conclusion. • Basic analysis of business areas. • Basic application of interpretation of financial data including calculation of relevant figures.
0	0	Nothing written worthy of credit.

Indicative content

Application	Analysis/evaluation
<p>Minimum cost of £50 000. The cost of sponsoring the national competition may increase.</p> <p>Skate4U would have a further £5000 available from its overdraft.</p> <p>Skate4U can use up to £55 000 of their overdraft for the sponsorship deal.</p> <p>Skate4U aims to pay the overdraft off in six months.</p>	<p>The overdraft gives Skate4U some flexibility over how much is borrowed from the bank and when it is repaid. The sponsorship will cost a minimum of £50 000. As Skate4U has already borrowed £10 000 this leaves it with an extra £5000 available. The cost of the sponsorship deal depends on how far the team progresses, and so by having this level of flexibility Skate4U has more finance available if necessary. The overdraft can be repaid at any time so Skate4U could avoid paying high amount of interest if it is able to repay quickly.</p>
<p>Currently the annual interest rate is 12% on overdrafts. Interest rates have increased.</p> <p>Skate4U would pay £3000 in interest if it paid the £50 000 overdraft off after six months.</p> <p>£122 000 net profit available in 2020 that can be retained and used to pay for the sponsorship.</p>	<p>The interest rates of overdrafts have increased to 12%. Skate4U will be charged £3000 in interest if it takes 6 months to repay the £50 000 overdraft. If the interest rate increases again then this will cost the business even more.</p> <p>Skate4U made £122 000 net profit in 2020. If the business used finance to sponsor the skateboarding competition it would avoid paying any interest on the £50 000, reducing the total costs of the sponsorship. If Skate4U need to invest any more in the sponsorship, then it still has £72 000 retained profit to do this.</p>

Evaluation/Conclusion

- Will using the net profit for the sponsorship prevent other important activities occurring? How important is new product development to the future success of Skate 4U?
- The maximum overdraft is £65 000 – if the team reaches the final stages of the competition would Skate4U be able to borrow enough?
- What will happen to interest rates? If current interest rates fall on overdrafts, they would become more attractive.

Student responses**Response A**

Overdraft is a current liability where businesses borrow more money than they have in their account from the bank.

One advantage of using the overdraft to fund sponsorship is increased awareness and visibility in their target market. Skate4U's net profit margin has decreased by 8% in the last year, suggesting revenue has decreased. The increased awareness and reputation from a national skating competition is likely to increase the number of customers and therefore sales the business receives. This means that net profit margin will increase, allowing Skate4U to continue purchasing "high-quality" materials for their skateboards.

However, a disadvantage of using the overdraft is high interest rates. At 12% interest, Skate4U will be paying an extra £6000 interest per year. This increase in costs will result in the Extra space ~~business's~~ business's net profit margin decreasing even further. Skate4U's USP is threatened even further as they are known for their high quality materials which are likely to be

^{expensive}
~~expense~~. Increased costs from the high interest rates will mean the business may not be able to buy high quality materials and therefore cannot charge the premium price of £285. This will cause a further decrease in Skate 4 Us profit.

In conclusion, I think Skate 4U should not use its overdraft to fund the sponsorship. This is because interest rates are high so the business won't be able to afford materials and customers will have less disposable income. However, this depends on the economic climate and whether interest rates are likely to decrease soon.

This is a Level 3 response

The first paragraph simply explains what an overdraft is.

The second paragraph covers sponsorship analysis and uses data from Question 2.2 to support the comments. The answer refers to visibility in the market which is needed as revenue has decreased in the previous year. It also suggests that the sponsorship could increase the number of customers and therefore sales. The answer refers to the ability of the business being able to maintain purchasing quality materials for their skateboards. However, the key question regarding the use of the overdraft has yet to be addressed.

The next paragraph does bring in the interest rate of 12% and a calculation has been made to the cost of this and it is written in context which puts the answer into Level 3. The comment regarding their USP of using quality materials being threatened because the profit margin may be reduced is relevant. The reduction in profits may prevent them from buying their high quality materials and charging premium prices.

The conclusion is supported and the comment about customers also being affected by the increase in interest rates and having less disposable income is good, securing the answer in Level 3.

There is a good chain of argument throughout linked to using an overdraft.

8 marks

Response B

Plan:

- Can save profits to produce higher quality goods
- Interest rates have increased - may increase further

One reason for why SkateAll should use its overdraft to fund the sponsorship is that they will not have to use the retained profit. This is an advantage for SkateAll because they plan to use that retained profit for "new product development". This means they can invest more in producing their goods, which they means they can sell higher quality products.

However, one reason for not using the overdraft, is that "interest rates on overdrafts have increased." This is a disadvantage for SkateAll because ~~they cannot~~ interest rates could increase again, and they only have a "maximum overdraft of £55,000 available."

I recommend SkateAll should not use the overdraft because they need to save that money in case interest rates increase again.

This is a Level 1 response

The first paragraph makes very basic comments about the retained profits not being used. There is some context regarding a new product being developed, but it does not address the question and so stays in Level 1.

The second paragraph does refer to the interest rates but again the answer does not refer to whether the business should use it to fund the sponsorship so stays in Level 1.

The final paragraph does contain a decision but there are no supporting comments to say why they should do this. It is not linked to the sponsorship and adds nothing to the answer.

2 marks

Response C

A reason that Skate 4U should not use their overdraft is that the money will be extremely tight. Considering £10,000 of the £65,000 overdraft has been spent, they must also take into consideration that 12% ~~(£7,800)~~ interest must be paid in annual interest, which is not viable as the sponsorship will cost minimum £50,000, with the price increasing if the team reaches the final; Skate 4U also stating they wish to keep their retained profits for new product development. If the business overspends on the sponsorship, this means they may struggle to pay workers their promised wages, which will affect employee motivation, impacting the efficiency of the production line, leading to a reduction of sales, due to unsatisfactory products, leading to a fall in revenue, ~~too~~ which harms profit.

However, a reason Skate 4U should use an overdraft to pay for the sponsorship is that the sponsorship will garner a lot of exposure, leading to more
 Extra space potential customers being aware of the business, which will lead to more sales, which helps increase market share, important in a competitive market, leading to a rise in revenue, and more profit.

~~This means that~~ the increase in profit from the sponsorship, can be used in turn to help pay back the interest from the overdraft, and will also fund the increased price of sponsorship, assuming the team progress in the competition.

In conclusion, I think Skate 4 U should use the ~~spare~~ overdraft to fund the sponsorship, as the potential of new customers and increased sales from the sponsorship, can cover for the previous shortage of money, to pay back the overdraft. My decision depends on ~~how~~ how many new customers the brand deal attracts

This is a Level 2 response

The first paragraph covers the cost of the interest and the fact that if the company reaches the final of the competition their costs will increase. This shows sound analysis and puts it into Level 2. The paragraph continues with the line of argument, but the content is not directly linked to the question of using an overdraft but to the running of the business eg paying workers and their motivation.

The second paragraph does cover the benefits of sponsorship to the business but again does not focus on the question. The argument is quite generic and is justified with random data content.

The next paragraph does have sound analysis commenting on how the increase in profit could be used to pay the overdraft back and possibly cover the cost if they reach the final.

The conclusion does have a decision but it is lacking in detail and the analysis is insufficient to gain the top of Level 2.

5 marks

Question 2.6

Skate4U Ltd is considering taking the risk of extending its product portfolio into a new market.

Recommend whether Skate4U Ltd should develop a range of low-price scooters. Give reasons for your recommendation.

[9 marks]

Mark scheme

Marks for this question: AO2 – 3 marks, AO3 – 6 marks

Level	Marks	Description
3	7-9	<p>Detailed analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • Sustained line of reasoning, which is coherent, relevant, substantiated with a focused conclusion that is fully justified. • Business areas are fully analysed. • Applies knowledge and understanding to the context sufficiently.
2	4-6	<p>Sound analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • A line of reasoning, with a conclusion that has some justification. • Business areas are partially analysed. • Applies some knowledge and understanding to the context.
1	1-3	<p>Basic analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • Basic line of reasoning with a conclusion. • Basic analysis of business areas. • Basic knowledge and understanding to the context.
0	0	Nothing written worthy of credit.

Indicative content

Application	Analysis/evaluation
<p>Sales of skateboards have fallen.</p> <p>The scooter market has rapidly grown in the last three years.</p> <p>Scooters would be aimed at a new market and low price.</p>	<p>Skate4U is currently suffering from a fall in sales in the skateboard market, whereas the scooter market has grown rapidly over the last three years. If Skate4U stays in its current market the business is likely to struggle to generate sales revenue and sales may continue to fall. By widening its product portfolio and developing a new product for a growing market Skate4U should increase its sales. The scooters will be sold at a low price, whereas the skateboards it currently produces are very expensive. Having a low-priced product in its portfolio will attract a different target market and increase sales for Skate4U.</p>
<p>The scooter market is dominated by four large businesses that have 80% of the sales revenue.</p> <p>Concerns within the business about the possible negative impact on the brand image of Skate4U.</p>	<p>There is a significant risk for Skate4U in entering a market dominated by four large businesses. 80% of the sales in the scooter market come from four businesses. This means that these businesses may already have a strong brand awareness and customer loyalty, resulting in Skate4U needing to spend a significant amount of money promoting the new scooters to ensure that it can build a customer base. There are concerns about the impact of moving from a premium to a low-cost product. Customers might be put off from buying a skateboard from Skate4U if they see that this brand is also selling low-cost scooters.</p>

Evaluation/conclusion

- If sales are falling does Skate4U have any other option but to enter a new market?
- How strong is customer loyalty in the scooter market? Are customers willing to switch brands?
- How effective is Skate4U's promotional campaigns?
- How many scooters would need to be sold to break-even?
- Will its current market of skateboarders be interested in the scooters? Will the change have a negative impact on image?

Student responses

Response A

One reason why Skate 4U should enter this market is because their Skateboard Sales are falling. This is important because without expanding to another product like scooters, the brand would suffer and maybe go out of business. This product expansion keeps sales up, increasing profit. Furthermore, by having the ~~item~~ scooters at a low cost, it can help penetrate the ^{growing} market ~~or~~ which can give them more sales ^{especially given} from the competitive pricing. This increases sales, and increases profit.

However, the new scooters may be bad because it may tarnish the company's reputation for high quality products. For example, the current skateboards use high-quality materials which ~~keeps~~ makes the sales price high, however to keep the price down on the scooters, low quality materials may have to be used instead. This could make people less ^{Extra space} happy with the product, which can worsen Skate 4U's reputation even ^{for} their high quality skateboards which ~~is~~ reduces sales and reduces profit.

This is a Level 3 response

The first paragraph contains context and information regarding the sale of skateboards falling and the need to consider another market. This puts the answer into Level 2 but there is limited reference to pricing.

The second paragraph goes into Level 3 as it shows a good understanding of having to use cheaper materials for the low priced scooters and what affect this could have on the original business of selling quality skateboards at premium prices.

The final paragraph contains a conclusion which is a bit repetitive but overall the answer shows a good level of knowledge. It did not fully develop details about pricing so is in the middle of Level 3.

8 marks

Response B

one reason I think skate4U should develop a large range of scooters is because it opens up there ~~is~~ ~~business~~ to a much wider market. This is good because it will allow the business to sell alot more of there products, this will lead to more ~~see~~ profit.

another reason I think that skate4U should start selling scooters, is because currently there are only 4 big companies that sell scooters on a large basis. This is good because it will allow people to notice skate4U's ~~business~~ easily and they will think skate4U has high quality scooters because of the ^{Extra space} high quality skateboards. This will lead to more people buying from skate 4U and then ~~the~~ the business could potentially even take over the scooter market, greatly increasing sales and overall profit.

This is a Level 1 response

The first paragraph contains basic information regarding a wider market but has no application so is in Level 1.

The second paragraph shows a lack of understanding regarding the big four companies thinking that there is a gap in the market so it stays in Level 1.

The end of the paragraph says that Skate 4U could take over the scooter market which is not very likely as it is a completely different market to skateboards. There is no conclusion so it stays in Level 1.

2 marks

Response C

One positive of developing a low price scooter range would be that, this would be a new opportunity for Skate4U to improve their product range. This is good because a new customer market for people to ~~buy~~ scooters or skateboards from Skate4U, which leads to more sales, therefore more total profit made.

However a downside to this may be a loss of skateboard buyers and also ~~could~~ could damage ~~the~~ Skate4U reputation as they would now be producing low quality scooters, this is bad as this could loss potential / future customers which leads to loss of sales therefore less total profit made.

In conclusion I believe that they should ~~not~~ develop a range of low quality scooters ~~as~~ as it is a ~~good~~ chance to grow ~~the~~ Skate4U market share, however this depends on if Skate4U are willing to potentially loss some of their reputation.

This is a Level 1 response

The first paragraph contains basic information regarding a new market but has no application so is in Level 1.

The second paragraph shows some basic analysis regarding the affects low priced scooters could have on their skateboard customers.

The final paragraph refers to market share but as yet they do not have a market share of the scooter market.

Overall, there is a vague reference to cheaper products affecting the business with generic analysis about losing customers and profits so the answer stays in Level 1.

3 marks

Section B

6-mark question

Question 2.5

The scooter market is a highly competitive market dominated by four businesses.

Analyse **one** reason why promotion would be useful to Skate4U Ltd when entering the scooter market

[6 marks]

Mark scheme

Marks for this question: A02 - 3 marks, A03 - 3 marks

Level	Marks	Description
3	5-6	Detailed analysis of topics based on the context <ul style="list-style-type: none"> Business areas are fully analysed. Applies knowledge and understanding to the context sufficiently.
2	3-4	Sound analysis of topics based on the context <ul style="list-style-type: none"> Business areas are partially analysed. Applies some knowledge and understanding to the context.
1	1-2	Basic analysis of topics based on the context <ul style="list-style-type: none"> Basic analysis of business areas. Basic knowledge and understanding is applied to the context.
0	0	<ul style="list-style-type: none"> Nothing written worthy of credit.

Possible answers include:

Application

- four businesses dominate the market and receive 80% of the sales revenue** – promotion is used to persuade customers to switch brands
- market leader has launched a successful sales promotion** – competitors' actions influence promotional methods
- Skate4U would be a new entrant in the market** – promotion is essential at the introductory stage of the product life cycle
- Skate4U is planning to inform its current market of skateboard users about the new scooters** – promotion can be used to inform customers about new products.

Example of Level 3 developed answer

Skate4U is entering a very competitive market that already has four businesses. One reason for promotion by Skate4U is that it can be used to inform customers about the new scooter range. Once customers are aware of the features of the new scooters then this might persuade them to switch brands. The four dominant businesses in this market receive 80% of the sales revenue. Therefore, Skate4U must launch the scooters with an effective promotional campaign so the market is aware of the new products straight away. If Skate4U does not invest in promotional activities, it will struggle to attract customers to buy its new scooter product range. This will mean Skate4U's sales will continue to fall and it will struggle to break-even.

Student responses**Response A**

Promotion will attract ~~the~~ new customers to Skate4U Ltd as they are entering a new, competitive, ~~market~~ market, they must promote it - a way which gives them a USP against the four dominant businesses in the market, in order to have a chance of attracting, and retaining new customers

Promotion will help the new products in the early phase of the product life cycle, as it will introduce, and begin to grow the product, by spreading awareness of it.

This is a Level 3 response

The first paragraph shows an understanding of the other four competitive businesses and puts the answer into context. There is some detailed analysis regarding how promotion will increase awareness and could give them a USP in a competitive market attracting new customers so goes in at Level 3.

There is detailed analysis throughout which is all linked to producing a new product. The second paragraph links to the first regarding a new product and the fact that there are already competitors in the market.

There is not enough context to put it at the top of Level 3.

5 marks

Response B

one reason promotion is important for skate4U when starting to sell scooters is because if they advertise and promote ^{there} scooters then they will have a higher chance of making profit because more people will see there product.

this is important because it will lead to more scooters being sold and that leads to more profit

This is a Level 1 response

The first paragraph shows the understanding that the scooters are a new product being made so it is in context. However, the answer is very basic and does not refer to the benefits of using promotion other than letting people know what they are selling. The answer is not developed so stays in Level 1 but there is enough detail for the second mark.

2 marks

Response C

Promotion would be useful to Skate 4U as it will help them build awareness in a competitive market. This means people will be more likely to try their products, resulting in greater amounts of sales. This leads to increased market share for Skate 4U as they ~~will be~~^{are} charging lower prices on scooters as they promote them, which means more sales are made and the product will experience growth more quickly. ~~Expanding their product portfolio~~ This would be useful to Skate 4U as it minimises the risk of wasting money & materials put into ~~£~~ expanding their portfolio. Therefore, ~~they should~~ promotion would be useful as they would be able to attract greater awareness of the product, which results in more profit in the long run as there are higher sales.

This is a Level 2 response

The first paragraph shows an understanding of the awareness of the other four businesses and puts the answer into context. There is some analysis regarding how promotion will increase awareness of the new product and could help to increase sales so goes in at Level 2.

There is sound analysis throughout but the final paragraph is repetitive and as such the mark stays at the bottom of Level 2 as there is no evidence to support why promotion would be useful with regard to the scooter market.

Some very generic comments made throughout about increasing sales and profits..

3 marks

Section C

6-mark question

Question 3.3

As a plc, Skyline must ensure that the interests of its shareholders are met.

Analyse **one** disadvantage to Nadia of Skyline being a public limited company.

[6 marks]

Mark scheme

Marks for this question: A02 – 3 marks, A03 – 3 marks

Level	Marks	Description
3	5–6	Detailed analysis of topics based on the context <ul style="list-style-type: none"> Business areas are fully analysed. Applies knowledge and understanding to the context sufficiently.
2	3–4	Sound analysis of topics based on the context <ul style="list-style-type: none"> Business areas are partially analysed. Applies some knowledge and understanding to the context.
1	1–2	Basic analysis of topics based on the context <ul style="list-style-type: none"> Basic analysis of business areas. Basic knowledge and understanding is applied to the context.
0	0	Nothing written worthy of credit.

Application

- **Nadia's ownership of the business reduced to 70%** – share issue results in a loss of control
- **shareholders able to vote on major decisions** – shareholders may vote to take the business in a different direction to what Nadia wants
- **Nadia had planned to reinvest her profits back into the business** – shareholders will expect to receive a dividend for their investment.

Example of a Level 3 developed answer

Nadia has owned 90% of Skyline plc since buying the company two years ago. Her ownership and control have now been reduced to 70% because she needed to raise funds through share issue. Nadia has always made the decisions for the business herself and is planning to expand the business and introduce new routes to different destinations. However, her new shareholders have a say in the major decisions of the business, and they might not agree with Nadia's plans, preferring to receive a dividend rather than reinvest all the profits.

Student responses**Response A**

One disadvantage to Nadia of Skyline being a plc is that anyone can own shares of the company. This means that there are shareholders who own 30% of the Skyline. This means that these shareholders must be kept happy. To keep these shareholders happy, Nadia has to pay them dividends. This reduces the amount of the business' profit that she gets. It also means that less money can be reinvested into the business like she wants. This ~~is~~ is worse for the business and Nadia won't get as much of the profits which is a disadvantage to Nadia of Skyline being a plc.

This is a Level 3 response

The beginning of the paragraph shows a basic understanding of a plc and as it is in context it goes into Level 2. There is good analysis regarding using the profits to reinvest in the business so this secures its place in Level 3. Based on the analysis it stays at the bottom of Level 3 as there is not enough detail for the sixth mark.

5 marks

Response B

one reason this is a disadvantage is because Nadia can't make decisions on her own and needs to do votes. This is bad because Nadia may not get the change to the company that she was hoping for and that could lead to a loss in profit so the decision was bad.

another reason this is bad is because it slows down the decision process for Nadia. This is bad because skyline plc could miss out on an opportunity.

This is a Level 1 response

The beginning of the paragraph shows a basic understanding of a plc but there is limited development so it goes in at Level 1. The student has written about a second reason so only one can be rewarded. As there is no context the answer stays in Level 1 but gains the second mark.

2 marks

Response C

A disadvantage to Nadia of Skyline being a public limited company is that "they are able to vote on major decisions such as whether to expand". This is bad because anyone can be a shareholder to a plc which means the shareholders may just be hoping for the safest option whereas Nadia may want to take a risk but she can't if the shareholders don't agree. This leads to Nadia not being able to make important decisions in her business which therefore may ruin her brand image.

This is a Level 2 response

The start of the paragraph shows a basic understanding of a plc but there is limited development, however as it is in context regarding whether to expand it goes into Level 2. In the middle there is reference to analysis regarding shareholder voting and how this can impact on how Nadia runs the business so it stays in Level 2 but as there is little reference to context it stays at the bottom of Level 2.

3 marks

Section C

6-mark question

Question 3.5

Skyline plc plans to set up a telesales team to generate a high level of sales for flights to Sibiu.

Analyse **one** disadvantage to Skyline plc of using telesales to contact customers.

[6 marks]

Mark scheme

Marks for this question: A02 – 3 marks, A03 – 3 marks

Level	Marks	Description
3	5-6	Detailed analysis of topics based on the context <ul style="list-style-type: none"> Business areas are fully analysed. Applies knowledge and understanding to the context sufficiently.
2	3-4	Sound analysis of topics based on the context <ul style="list-style-type: none"> Business areas are partially analysed. Applies some knowledge and understanding to the context.
1	1-2	Basic analysis of topics based on the context <ul style="list-style-type: none"> Basic analysis of business areas. Basic knowledge and understanding is applied to the context.
0	0	Nothing written worthy of credit.

Application

- not all customers have indicated if they are happy to be contacted by telephone – **appropriateness of channel of distribution**
- telesales team will not be given a formal script – **impact on company image**
- telesales team expected to contact at least 12 customers per hour – **ability to successfully access customers.**

Example of a Level 3 developed answer

Skyline has some customers that have not stated whether they are happy to be contacted by telephone. If a member of the telesales team calls a customer who does not want to be contacted this way, it could have a negative impact on the image of Skyline. The business would like all past and present customers to be contacted. Customers may not be interested in visiting Sibiu and would find it annoying to receive a telesales call about this destination. Using telesales could stop them from booking a flight with Skyline in the future if they do not feel their information is being used correctly.

Student responses**Response A**

*Telesales: pitching products through telephone and television

In item D we are told that 'not all customers have indicated that they would be happy to be contacted by telephone'. This means that clients may become frustrated phone calls, especially if they have been contacted more than once. Which means that they could be ~~frustrated~~ ^{'put off'} with using 'Skyline plc' to travel abroad. Also customers may find it strange if they get called randomly to speak about an upcoming holiday or trip. ~~but~~ Therefore would be given a bad reputation.

This is a Level 2 response

There is context at the beginning referring to customers' wishes. The answer is sound with links to telesales and the effect it has on customers and the business. There is not enough analysis to go in at Level 3 so it stays at the top of Level 2.

4 marks

Response B

One disadvantage may be that, not all customers have indicated that they are happy if they get contacted by telephone. This may mean getting no answer or an unhappy customer.

This is a Level 1 response

There is context present but there is just enough content to gain 1 mark. There is evidence of the data being used.

1 mark

Response C

Customer may see telesales as a trait of a low quality business, and may get annoyed and lose respect for the business, this may decrease their future sales as the people they are calling are ~~the~~ all potential customers who may never buy Skyline plc's services again if the wrong impression is made, a loss of reputation would result in bad word of ~~the~~ mouth which would decrease the likelihood of new customers ~~to~~ purchasing, this would ~~the~~ decrease the ~~company's~~ businesses sales and may not leave ~~the~~ enough money for future
 Extra space investments.

This is a Level 2 response

There is superficial context by the mention of Skyline. However, the answer does not analyse telesales but just comments on customer impressions. It is rather a generic answer which could apply to any business. There is enough analysis to go in at Level 2 but stay at the bottom.

3 marks

Section C

12-mark question

Question 3.6

Skyline plc wants to increase the profit of the business. It is considering **two** options to achieve this:

- introduce loss leader pricing to increase customer numbers on midweek flights
- improve sustainability to attract a new target market.

Analyse the effect of **each** of these **two** options on the business.

Evaluate which of these **two** options will have the biggest impact on the profit of the business.

[12 marks]

Mark scheme

Marks for this question: AO1 – 3 marks, AO2 – 3 marks, AO3 – 6 marks

Level	Marks	Description
4	10–12	<p>Developed, integrated analysis and evaluation of topics with sustained judgement based on context</p> <ul style="list-style-type: none"> • An integrated line of reasoning, which is coherent, relevant, with a conclusion with the area which has been impacted on the most has been fully justified. • Interdependent nature of business areas is fully analysed. • Applies knowledge and understanding to the context and successfully draws together several functional areas of business.
3	7–9	<p>Detailed analysis and evaluation of topics based on the context</p> <ul style="list-style-type: none"> • A line of reasoning, which is coherent, relevant, with a conclusion that is justified. • Different business areas are analysed independently or the interdependent nature of business areas is partially analysed. • Applies knowledge and understanding to the context and starts to draw together several functional areas of business.
2	4–6	<p>Sound analysis and evaluation of topics in isolation of their interdependence based on the context</p> <ul style="list-style-type: none"> • A line of reasoning, with a conclusion that has some justification. • One business area is analysed independently. • Applies some knowledge and understanding to the context.
1	1–3	<p>Basic generic discussion of topics</p> <ul style="list-style-type: none"> • A basic understanding of business concepts in isolation. • A basic understanding of one or more business concepts. • Partial relevance to the question.
0	0	Nothing written worthy of credit.

Indicative content

Understanding	Application	Analysis/evaluation
Loss leader pricing method involves selling a service at a price below cost to attract customers.	<p>Skyline plans to use loss leader pricing for off-peak midweek flights.</p> <p>Skyline aims to cover costs and make a profit by charging customers for extras.</p> <p>Once customers have flown with Skyline they return to the business.</p>	Significantly reducing the price of the off-peak flights will encourage many more customers to travel midweek instead of on a weekend when prices will remain high. However, as Skyline is using a loss leader pricing method this will have a negative impact on profits as it will not cover the costs of each flight. Skyline is aiming to make a profit by charging customers more for luggage and drinks, however if people decide not to add any extras to their flight then Skyline will fail to cover costs and make a loss. The business knows that once customers have flown with it they return. Therefore, using a loss leader pricing method should attract new customers who are likely to book more flights with the business in the future, increasing the overall profits of Skyline.
To improve sustainability there is often a trade-off with profit.	<p>Customers are becoming more aware of the environmental impact of air travel.</p> <p>Skyline would remove single-use plastics from flights.</p> <p>Skyline will donate 1% of profit to environmental projects to make up for the pollution produced.</p>	There is a gap in the market for a sustainable airline as no other low-cost airline is currently promoting this. This would give Skyline a USP and attract a new market of environmentally friendly customers, therefore increasing profits. Skyline plans to remove single-use plastic from flights and insist that customers bring their own reusable cups on board. By doing this it risks upsetting its regular customers. As the low-cost flight market is very competitive customers that are not concerned about the environmental impact of flying may switch to a competitor who is still offering these services on board, reducing profits.

What does it depend on? Evaluation and integration

- Skyline may decide to increase prices to cover the 1% donation to environmental projects. If sustainability increases prices, then Skyline may lose customers.
- Is a 1% of profit donation to environmental projects enough to entice customers?
- If the midweek flight prices are significantly lower, then people may stop travelling on more expensive weekend flights.
- How many flights will be adopting the loss leader pricing method? Is this a long-term plan? This strategy could have a serious impact on profit.
- How many people can travel midweek?

Student responses**Response A**

Loss leader pricing means making a loss on some sales in the hopes of drawing in customers to get them to spend more money with you. This could benefit Skyline as not many customers fly on off-peak midweek flights, the flights that would be cheaper. However many customers

choose to fly for the weekends. Charging cheap fares during the week would hopefully lead to customers coming back and paying full price during weekends and holidays as well as spending more on extra upgrades, therefore making more sales.

This could negatively impact Skyline as they would be ~~making~~ making a loss during the week and ~~this~~ ^{the} loss leader method would rely on customers coming back. If customers did not come back to Skyline it could result

in a dramatic decrease in revenue therefore a large loss for the airline.

Improving sustainability for the airline would mean ~~making~~ removing single use plastic from meals as well as other methods of aiding the extra space environment. This would benefit Skyline as customers are increasingly concerned about the affects of ~~air~~ air travel on the environment. This would lead to higher customer satisfaction and a ^{positive} ~~better~~ brand image resulting in ~~higher sales~~ an increase in sales for Skyline.

However a problem with this would be that Skyline are not increasing their prices. Becoming environmentally friendly is ~~costly~~ costly, especially for Skyline as they are giving 1% of their profits to environmental projects. Keeping their prices the same ~~to~~ could decrease ^{revenue} ~~profit~~ for the company resulting in a downturn in profits for Skyline.

In conclusion I think the best option for Skyline is using a loss leader pricing method. However ~~they~~ Skyline should only do this if they are certain that it will result in repeat customers as well as customers purchasing extras. If Skyline's estimates are wrong it could lead to a loss. But if they are correct it would increase sales and revenue by quite a lot.

This is a Level 3 response

The first paragraph simply explains what loss leader pricing is and puts the answer in context as it refers to off peak midweek flights. The answer is developed by suggesting that by charging low prices for midweek flights, satisfied customers would also book holidays and weekend flights with the company, paying full price or paying for upgrades, which is sound analysis, putting the answer into Level 2.

The second paragraph shows a good line of argument relating to the business and the need for customers to return and purchase full priced flights. If they did not, the airline would have made a loss by offering loss leader midweek flights.

The next paragraph does bring in sustainability and makes good use of the data. The answer relates to customers concerns for the environment and how this could improve their brand image so helping to increase sales. This is detailed and goes in at Level 3. There is good use of the data regarding the cost of being environmentally friendly and how this could affect profits which links it directly to the question.

The conclusion is supported and the comment about customers returning is relevant. It does however fail to address whether a company could consider loss leaders long term as they would be relying on return business. The conclusion does not directly link the two options to the impact on profit so the answer remains in Level 3 in the middle.

8 marks

Response B

An advantage of improving sustainability would be introducing a new target market. This is good because they will have almost double the customers than other cheap airlines if their existing flyers stay.

However, an ~~advantage~~ advantage or loss leader in midweek holidays would be more people would book with Skyline as they see getting the most for money and just 'charging extra for ~~extra~~ luggage and seat upgrades etc'. This will allow them to still make profit, if not more than before.

A disadvantage of improving sustainability is that it may not attract enough people to extra space be able to reach the demands like 'donating 1%' and only using reusable cups.

In conclusion, I think Skyline should introduce loss leader pricing to increase customer numbers on midweek flights because people would choose their flights causing high repeat custom.

This is a Level 1 response

The first paragraph makes a very basic statement regarding sustainability reaching a new target market, but the comment about how this could double the number of customers is not explained.

The second paragraph then goes on to make a good comment regarding an increase in profits by selling extras but fails to develop this by analysing the issues if passengers did not buy the extras.

The next paragraph does again comment on sustainability but is quite basic and much of it is simply copied from the data with regard to the 1% donation and the reusable cups.

The conclusion does make a judgement but there is no explanation as to why this would be best and how it would generate repeat customers so the answer stays in Level 1.

3 marks

Response C

Loss leader pricing involves charging less than the cost of the service just to increase customers.

One reason to introduce loss leader pricing is that it will mean that ^{Skylire's} midweek flights are cheaper than competitors. This can mean that customers will fly with Skylire instead of other competitors which will give them a bigger

market share. This can then increase profits if sales on weekend flights increase as well. However, one ~~the~~ reason not to introduce loss leader pricing is that on the midweek flights, Skylire would be making a loss. This would be bad for the business and would have to be made up for with weekend flights. This loss may not be made up though so

it may just cause an overall loss for Skyline. Introducing loss leader pricing would have a positive impact on the marketing function as the price would give them a USP so it would be easier to promote the flights to ~~new~~ ^{new} customers.

Sustainability is being better for the planet.

One reason to improve sustainability is that it will attract a lot of new customers as it would open up the business to a new market.

This is because there are people who would only

Extra space fly with Skyline if it is more sustainable so it ~~will~~ would mean that they would be opening their flights to ~~new~~ ^{new} more new potential customers. This would increase sales and therefore revenue and profit. However,

improving sustainability can be very expensive to implement. This could mean that although it may increase sales, it will increase costs significantly so could result in a loss.

Improving sustainability would have a negative impact

on the operations function as the service would have to be provided in a more sustainable way.

Overall, I think that improving sustainability in their flights would increase profit the most because it can open up an entirely new market

of customers. It would increase profit more than introducing loss leader as loss leader pricing would require the weekend flights to make a lot of profit. The biggest functional impact would be on the operations function as improving sustainability would change the way the flights are provided and run.

This is a Level 2 response

The first paragraph simply explains what loss leader pricing is. The answer is in context as it refers to prices being cheaper than competitors but that they would need to make up the loss by gaining more passengers at the weekend. This is sound analysis so goes in at Level 2. The paragraph then goes on to make a good point of how this would help the marketing department to promote the flights possibly giving them a USP. Sustainability would also attract customers and potentially open up a new market. Sound analysis present so comfortably in Level 2.

The next paragraph does bring in sustainability, commenting on it attracting new customers, but it is quite repetitive and only makes some basic comments about the cost of implementing this.

The conclusion is supported and the comment about the need for customers returning is relevant. Answer makes a very good point about the need for more weekend flights being sold in order to cover the loss leader flights midweek. The conclusion is sufficient to put it at the top of Level 2.

6 marks

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