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Pearson Edexcel

Mark Scheme (Results)

January 2023

Pearson Edexcel International Advanced Level
In Business (WBS13) Paper 01
Unit 3: Business decisions and strategy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

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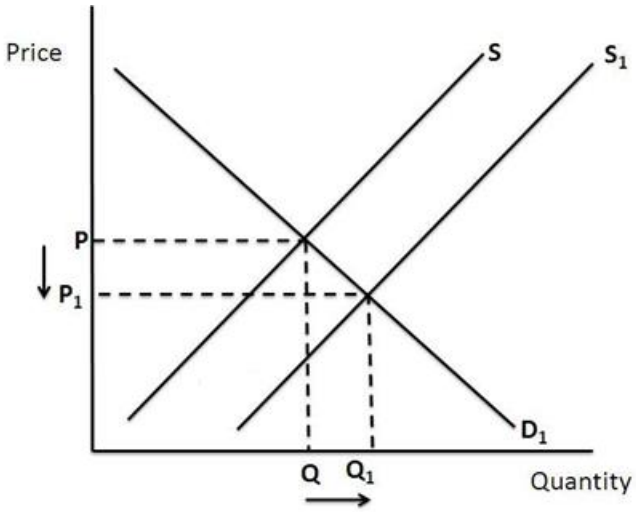
Question	Construct a supply and demand diagram to show the impact on the market for e-bikes if the UK Government gave a subsidy for e-bikes. (4) **Answer**	Mark
1(a)	**Knowledge 1, Application 2, Analysis 1** Quantitative skills assessed: **QS3**: Construct and interpret a range of standard graphical forms **Knowledge** 1 mark for correctly constructing a supply and demand diagram with correctly labelled axes as 'price' and 'quantity' **(1)** **Application** Up to 2 marks for: Showing supply and demand curves correctly labelled and original equilibrium price and quantity correctly labelled **(1)** Shifting the supply curve to the right **(1)** **Analysis** 1 mark for showing the new equilibrium price and quantity **(1)**  	**(4)**

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Question	Using Extract C, calculate to two decimal places, the current ratio for *Brompton Bikes* in March 2021. You are advised to show your working. (4) **Answer**	Mark
1(b)	**Knowledge 1, Application 2, Analysis 1** Quantitative skills assessed: **QS1** Calculate, use and understand ratios, averages and fractions **Knowledge** 1 mark for knowledge and understanding of how to calculate the current ratio: Current assets **(1)** Current liabilities **Application** Up to 2 marks for correct application of figures to formula: £36 365 919 **(1)** £11 155 758 **(1)** **Analysis** 1 mark for showing correct answer: 3.26 **(1)** **NB: If no working is shown, award marks as follows:** • If the answer given is 3.26 award 4 marks	**(4)**

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Question	Using Extract D, discuss whether the new factory will result in internal economies of scale for *Brompton Bikes.* (8) **Answer**
1(c)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points **must** also be credited. **QS: QS8, QS9** **Knowledge, Application, Analysis, Evaluation – indicative content** • Internal economies of scale arise when a business invests in expanding production resulting in lower average costs • Examples include purchasing, technical, marketing, managerial, financial and risk-bearing economies of scale • *Brompton Bikes* aims to build 200,000 bikes per year in the new factory compared to only 80,000 in its old factory • This could result in *Brompton Bikes* gaining purchasing economies of scale through being able to negotiate cheaper input costs in terms of bike parts and tyres with an increase in capacity • This could result in lower average costs of production for *Brompton Bikes* from the increased ability to build more bikes at the new factory • *Brompton Bikes* is increasing the number of employees from 800 to 1,500 which could result in managerial economies as it is able to afford to pay for more specialists such as marketing, IT and social media • Overall, internal economies of scale could result in fixed costs being spread over more units reducing average costs and giving *Brompton Bikes* a competitive advantage if prices are reduced • However, the new factory may not result in internal economies of scale and could in fact lead to diseconomies of scale • An increase in the number of employees might result in poor communication and a change in culture at *Brompton Bikes* resulting in higher average costs • The new factory could have higher running costs and therefore *Brompton Bikes* may not see the cost savings as it expected

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors.

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Question	Using Ansoff's Matrix, assess whether *Brompton Bikes* was right to launch *Brompton Bikes* Hire to grow the business. (12) **Answer**
1(d)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points **must** also be credited. **QS: QS8, QS9** **Knowledge, Application, Analysis, Evaluation – indicative content** • Ansoff's Matrix helps businesses to analyse a range of possible options by considering their relative risks • *Brompton Bikes* Hire could be considered to be an example of market development for *Brompton Bikes* • This is because *Brompton Bikes* Hire is using its existing folding bikes to target new market segments in terms of customers who only want to hire a bike rather than purchase one • This strategy is less risky than diversification and could be seen as a good move to encourage more people to try its folding bike without having to spend at least £895 to purchase it upfront • Discounts are available on future purchases so customers who hire a bike might want to purchase a folding bike at the end of the rental period if they like the bike • Therefore, this strategy could help to tap into the UK market and help to increase demand for its folding bikes in the long-term • However, market development can be risky in comparison to market penetration or product development because knowledge of the new market might be limited • *Brompton Bikes* has nearly 50 years of knowledge and expertise in making folding bikes but hiring out bikes will require increased investment and specialist knowledge to make it successful • The profit margin might not be as great on the hire of a bike compared to a customer purchasing a new bike therefore reducing profitability for *Brompton Bikes* • *Brompton Bikes* has been growing by an average of 17% for the past 18 years • This indicates it should perhaps focus on market penetration particularly when it moves to the new factory close to transport links and can continue to export its folding bikes to continental Europe • The benefits will depend on whether *Brompton Bikes* are able to balance this alongside its other business activities and if the market for bikes and e-bikes continues to grow in the UK

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	0	No rewardable material.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

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Question	Assess the advantages to *Brompton Bikes* of using the simple payback method of investment appraisal when planning its new factory. (12) **Answer**
1(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points **must** also be credited. **QS: QS8, QS9** **Knowledge, Application, Analysis, Evaluation – indicative content** • The simple payback method is an investment appraisal technique that measures the time it takes for a project to repay its initial investment • *Brompton Bikes* is investing up to £100m into a purpose-built factory at Ashford which is planned to be open by 2027 • The new factory will increase capacity and house a museum, visitor centre and café • If *Brompton Bikes* used the simple payback method it would be able to estimate how long it would take for the net cash flow generated by the new factory, museum and café to repay the initial outlay of £100m • The shorter the payback period the better it is for *Brompton Bikes* as it reduces the risk of the investment failing and the money being lost • The advantage of this method is it is simple and easy to calculate with results expressed in years and months • This method focuses on cash flow which is very important for *Brompton Bikes* as it looks to expand its operations into *Brompton Bikes* Hire and e-bikes • The simple payback method emphasises the speed of return which is important especially as the market for bikes and e-bikes are becoming more important due to health concerns and climate change • However, investment appraisal techniques are based on estimates/forecasts so will only be as accurate as the quality of the data used for the forecasts/the skill or experience of the team doing the forecast • The simple payback method ignores the time value of money and may underestimate the time it will take to repay the initial £100m • Focusing only on the financial aspect of a decision may miss out key qualitative issues in terms of how the expansion fits into *Brompton Bikes* corporate objectives, strengths, market position and finances • There are other factors which may be more important to the plans of *Brompton Bikes* such as government incentives/economic conditions/political and social stability • Using this method may give *Brompton Bikes* a useful guide as to which of its many investments at the new factory may be the most worthwhile and profitable

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Level 3	5–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

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Question	Using the data in Extract E and F, evaluate whether the board of directors of *Stellantis* should accept the shareholders' vote. (20) **Answer**
2	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points **must** also be credited. **QS: QS1, QS2, QS8 and QS9** **Knowledge, Application, Analysis, Evaluation – indicative content** • Shareholders are the owners of a company who have taken a risk by investing their capital into the business • As a result, the obligation of the business is to maximise shareholder value by making profits that can be distributed as dividends and/or achieving increased share price • Often there are conflicts between the interests of shareholders and other stakeholder groups such as employees • In this case there is a conflict between the shareholders and the Board of Directors with regard to how much has been proposed to pay the CEO Carlos Tavares • Tavares is set to receive a 17.6% rise on his pay taking his salary to €19m • Profits and returns to shareholders of *Stellantis* are likely to be reduced by excessive pay rises such as this particularly as the CEO of *Volkswagen Group* is set to receive only €8.6m in comparison • Shareholders may be concerned over the demotivating impact on the employees who may not have received a pay increase and employee numbers have declined since 2020 • However, Extract E does show that a salary of €19m for Tavares is still lower than the pay being awarded to Jim Farley of *Ford Motors* which demonstrates that such a pay award is comparable to other CEOs in the car business • If top executives feel they are not valued or properly rewarded, they may leave the company and go elsewhere. In such a case it may be hard to find a suitable replacement • Not awarding the pay package may act as a disincentive and may result in the CEO not working as hard for the shareholders • Extract F does show that there have been significant improvements in the financial position of *Stellantis* under the leadership of Tavares warranting such a pay increase • Revenue has increased by 213.54% and profit for the year has increased by 602.32% • Shareholder returns in the form of earnings per share have increased from €1.41 to €4.64 indicating that the CEO deserves remuneration to reflect this improvement • 48% of the shareholders did not vote against the pay award and so may actually have been in favour of it

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	0	No rewardable material.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.

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Question	Evaluate the extent to which changes in external economic influences will impact on the growth of *Dr Martens* in the UK. (20) **Answer**
3	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points **must** also be credited. **QS: QS8 and QS9** **Knowledge, Application, Analysis, Evaluation – indicative content** • External economic influences include the level of unemployment, the rate of inflation, the stage of the business cycle and interest rates • These can have a direct impact on a company's long-term prospects in a market and can impact both positively and negatively on the activities of a business • *Dr Martens* is seeing high levels of inflation across many parts of its operations • Inflation is affecting the cost of the leather, metal eyelets, soles and shipping costs because of demand for commodities and wage inflation • Consequently, *Dr Martens* is increasing the price of its boots to £159 per pair in order to cover the additional costs of production • This price rise could result in fewer customers being able to afford a pair of *Dr Martens* boots and sales may fall in the UK • This could result in growth being hindered and *Dr Martens* becoming uncompetitive in the footwear market in the UK particularly if there are cheaper rivals available • However, there are other factors which may have an impact on the growth of *Dr Martens* in the UK, not just economic influences • *Dr Martens* is a well-established brand and has been selling boots since 1960 • Therefore, the impact on sales from an increase in price might be limited due to brand loyalty and lack of availability of substitutes • The impact might not be as great as anticipated particularly if demand is price inelastic • *Dr Martens* has just announced a 16% rise in sales indicating that it is well placed to withstand changes in the wider economic environment • Social changes may affect the growth of *Dr Martens* in the UK • More women are wearing boots rather than shoes with high heels which could help to improve sales in the UK despite an increase in the price of its boots • Its growth in the UK will be dependent upon many external influences and *Dr Martens* said its biggest challenge has been the closure of its factories in Vietnam due to the global health crisis rather than inflationary pressures • *Dr Martens* could use PESTLE analysis to identify its external factors that could affect the business and use this information to aid its strategic decision-making

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Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted but will be generic and fail to connect causes and/or consequences.
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.

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