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GCE Business Studies BUSS1

Planning and Financing a Business

Unit 1

Final

Mark Scheme

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ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether candidates' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5 marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data**. For example, in responding to Question 2(b), a candidate might achieve good marks for application by arguing in support of locating in the city centre because the 50% increase in customer numbers combined with the 30% increase in spending per customer means that sales revenue will increase by 1.5 x 1.3 = 1.95; a 95% increase in revenue in comparison to the alternative location.

- **By manipulating data**. For example, when answering Question 2(c), candidates might use the data in **Figure 1** to confirm that Tom's closing cash balance in 2011 is (£21 150) but then improves to £7 783 in 2012. These forecasts support the view that Tom's cash flow forecast was helpful to him as it enabled him to recognise that he would need a bank overdraft in 2011.

- **By being consistently in context**. An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario.

If a candidate makes a single simple reference to the context when developing an argument, this is reasonable application. An example of this in answering Question 2(a) could be that a benefit of the *Joshua* franchise's protection of its ideas arose because the *Joshua* trademark and brand were recognised and admired by 60% of adults in the UK.

For application to be creditworthy, it must be used as part of a relevant argument. Some candidates simply copy out part of the case study. This should **not** receive credit.

ANALYSIS

Good analysis is shown when a candidate develops a chain of argument with a clear focus on the question. For example, when responding to Question 2(c), a line of argument could show how the cash flow forecast benefited Tom because the first draft revealed the high expense of purchasing premises in the city centre and the likelihood of a negative cash flow in 2011. As a consequence, Tom was able to take action to improve his cash flow by renting premises and arranging a bank loan and a bank overdraft.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question, for example, in Question 2(b), the existence of established competition in the city centre might make it harder for Tom to attract sufficient customers. Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the candidate's evaluation. For example, a candidate may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for Quality of Written Communication.

	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to: • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate The assessment of the quality of written communication is included in **Assessment Objective 4**.

1 **Total for this question: 20 marks**

1 (a)	*What is meant by the term 'random sample' (line 34)?*	*(2 marks)*

Definition: A group of respondents in which each member of the target population **(1 mark)** has an equal chance **(1 mark)** of being chosen. (**AO1)**

OR Notion of sample **(1 mark)**, notion of random **(1 mark)**

1 (b)	*State the formula for calculating 'market share' percentage (line 50).*	*(2 marks)*

Formula: $\frac{\text{Sales of individual firm (brand)}}{\text{Total sales in market}} \times 100$

** Sales may be expressed in terms of volume or value

1 mark for correct numerator **or** denominator only **plus 1 mark** for correct formula including the multiplication by 100. (**AO1)**

1 (c)	*Tom believes that the level of spending per visit by his customers will stay the same in 2011 and 2012. Based on the information in the case study, how many customers is he anticipating in 2012?*	*(3 marks)*

Correct answer = 8350 customers **or** 8350 **(3 marks)**

Broken down as follows:
Number of customers = sales revenue (2012)/average customer spend (**1 mark** for numerator or denominator)
= £130 260/£15.60 (**1 mark**)
= 8 350 customers (**1 mark**)

(**AO1/AO2)**

Alternative answers:
Candidate selects wrong year 2013. Answer = 9 000 customers **or** 9 000 **(2 marks)**
Broken down as follows:
Number of customers = £140 400/£15.60 (**1 mark**)
= 9 000 customers (**1 mark**)

Candidate selects wrong year 2011.
Broken down as follows:
Number of customers = £120 120/£15.60 (**1 mark**)
= 7 700 customers (**1 mark**)

Maximum 2 marks but no marks if answers shown without calculation as it can be copied from the case study.

1 (d)	*Tom expects variable costs per customer visit to fall by 10% between 2011 and 2012. Calculate the change in his break-even number of customers between 2011 and 2012 as a result of this fall in variable costs.* *(7 marks)*

Correct calculation of break-even for one year **(4 marks)**
Correct calculation of break-even for other year **(2 marks)**
Calculation of change **(1 mark)**
Total **(7 MARKS)**

Correct change = 278 **or** 277 **or** 277.9 **(7 marks)**

Breakdown of marking for 2011 calculation:
Candidate shows some understanding of break-even in writing **(1 mark)**

Fixed Costs **or** £63 000 **(1 mark)**
Contribution per unit **(1 mark)** £10.50 calculated **(1 mark)** = 6 000 **(1 mark)**
Maximum of 4 marks for 1 calculation

New break-even number of customers (2012):

VC per customer visit = £5.10 – (10% of £5.10) = £5.10 - £0.51 = £4.59

$$\frac{\text{£63 000}}{\text{£15.60 - £4.59}} = \frac{\text{£63 000}}{\text{£11.01}} = \text{5 722 **or** 5 723 **or** 5 722.1 customer visits (**1 mark**)}$$

(1 mark for denominator only)

Change in break-even number = 6 000 – 5 722 = 278 fewer customer visits needed. (**1 mark**)
Also accept 277 **or** 277.9.
(The wording of the question means there is no need to specify + or – for the change).

(Use OFR if any parts of the calculations are incorrect).

(AO1/AO2)

1 (e) *Explain **two** problems that Tom might face as a result of moving away from his original niche market.* *(6 marks)*

Level	Descriptor	Marks	Assessment Objective
L3	Good application	**6–5**	**AO2**
L2	Good knowledge **or** Reasonable application	**4–3**	
L1	Limited knowledge	**2–1**	**AO1**

A niche market is a small segment of a larger market.

Possible problems might include the following:

- Tom had specialised in children's hair styles. He might find it difficult to adapt to adult hairdressing
- he had built up a loyal customer base. The change would probably mean that this loyalty would be lost as he would be targeting new customers
- his market niche did not require a salon, which would be a high expense for him as he moved away from his niche
- he was not making very much profit and was finding it difficult to afford a franchise.

2 **Total for this question: 40 marks**

2 (a) *Analyse the benefits of Joshua protecting its business ideas and products.* *(10 marks)*

Level	Descriptor	Marks	AO
L5	Good application **AND** Good analysis	**10–9**	**AO2/ AO3**
L4	Good application **AND** Reasonable analysis ***or*** Good analysis **AND** Reasonable application	**8–7**	
L3	Reasonable application **AND** Reasonable analysis ***or*** Good application ***or*** Good analysis	**6–5**	
L2	Knowledge **AND** Reasonable application ***or*** Knowledge **AND** Reasonable analysis	**4–3**	
L1	Knowledge	**2–1**	**AO1**

Protection of business ideas describes the various methods (such as patents and copyrights) that can restrict other companies from copying a product/idea/design.

Possible ways in which *Joshua* protects its ideas:

- *Joshua*'s branded products have been patented and can only be sold through its franchisees. *Joshua*'s patented products were popular, being amongst the most popular brands in the UK
- the *Joshua* magazine will be protected by copyright laws. It is only sold through the franchisees, ensuring that the benefits are controlled by the *Joshua* organisation
- the brand name or any trademarks can also be registered, preventing any rivals from using them. A national survey showed that the *Joshua* trademark and brand were recognised and admired by 60% of adults in the UK.

2 (b)	*Was Joshua right to insist that Tom located his salon in the city centre? Justify your view.* *(15 marks)*

Level	Descriptor	Marks	AO
L5	Good application **AND** Good analysis	**10–9**	**AO2/ AO3**
L4	Good application **AND** Reasonable analysis ***or*** Good analysis **AND** Reasonable application	**8–7**	
L3	Reasonable application **AND** Reasonable analysis ***or*** Good application ***or*** Good analysis	**6–5**	
L2	Knowledge **AND** Reasonable application ***or*** Knowledge **AND** Reasonable analysis	**4–3**	
L1	Knowledge	**2–1**	**AO1**

Location: the sites from which a business operates.

Factors suggesting *Joshua* was right to insist that Tom located in the city centre include:

- *Joshua* wanted to attract high numbers of customers - the city centre would have 50% more customers
- a city centre address might improve the reputation of the salon, allowing it to meet Tom's target to earn more revenue per customer visit. Estimated that customers paid 30% more per visit
- Tom's customers expected to pay low prices away from the city centre.

Factors suggesting *Joshua* was NOT right to insist that Tom located in a city centre include:

- the cost of parking might be off-putting for customers
- customers might find it more time-consuming to visit a hairdresser in the city centre
- most of the competitors, such as *Toni & Guy*, were located in the city centre and so it might be more difficult to attract customers and/or charge high prices, especially as his business is not established
- rents charged for premises were 60% higher in the city centre
- parents of Tom's mobile business indicated that they would use him if he was based on the estate rather than in the city centre.

Evaluation:

Tom expected to increase sales revenue by 65% within a year. Although this was connected to other factors too, a city centre location was likely to be a key factor. The *Joshua* franchise had grown significantly over a 15 year period, suggesting that they had planned key elements of the business, such as ideal location, carefully. Overall, the candidate's conclusion should be based on the weight of arguments presented within the candidate's answer.

See next page for Evaluation grid.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses candidates' quality of written communication. When deciding on the level to be awarded, consider the degree to which the candidate orders his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	**5–4**	**AO4**
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	**3–2**	
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	**1**	

2 (c) *To what extent do you think that Tom's cash flow forecast will help to guarantee the success of his Joshua franchise?* *(15 marks)*

Level	Descriptor	Marks	AO
L5	Good application **AND** Good analysis	**10–9**	**AO2/ AO3**
L4	Good application **AND** Reasonable analysis ***or*** Good analysis **AND** Reasonable application	**8–7**	
L3	Reasonable application **AND** Reasonable analysis ***or*** Good application ***or*** Good analysis	**6–5**	
L2	Knowledge **AND** Reasonable application ***or*** Knowledge **AND** Reasonable analysis	**4–3**	
L1	Knowledge	**2–1**	**AO1**

Cash flow forecasting is the estimating of expected cash inflows and outflows for a business over a period of time.

Possible reasons for cash flow forecasting being important to Tom:

- Tom had been running a hairdressing business for five years
- the first draft indicated cash flow difficulties for Tom and so he was able to make three changes that would overcome these possible difficulties - renting the premises, taking out a bank loan and increasing his overdraft
- Tom's forecast gave a clear indication of improvement in his cash flow over the three years. This would have encouraged him to establish the business.

Possible reasons for cash flow forecasting process being of limited use to Tom:

- Tom's existing business targeted a very different market segment to the Joshua franchise, limiting the relevance of Tom's previous experience
- Tom's estimates of costs were based on figures provided by *Joshua*. These figures may not be unbiased
- the sales revenue forecasts were likely to be optimistic as they were based on two of the most successful *Joshua* franchises.

Evaluation:

Tom's reaction to his first draft led to better cash flow but more borrowing and so the changes did not guarantee 'success'. Tom's cash flow forecasting was helpful in that it helped him to make changes that eliminated some possible problems. The figures are also based on real franchises, but there is a strong possibility that the figures may be biased because of their source.

See next page for Evaluation grid.

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E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	**1**	