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General Certificate of Education
June 2010

GCE Business Studies BUSS1

Mark Scheme

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	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 'infrastructure' (line 7)? *(2 marks)*

Infrastructure is the network of utilities (**1 mark**), such as transport links, sewerage, telecommunications systems, health services and educational facilities. In the context of this case study, candidates can be expected to focus on transport, access and car parking facilities (**1 mark**).

1 mark for notion of network/external environment/external support **+ 1 mark** for notion of facilities, utilities or an example.

1(b) What is meant by the term 'quota sampling' (line 11)? *(2 marks)*

Quota sampling is where interviewees comprise target market or specific market segment (**1 mark**). The number of interviewees is limited/reflects that segment's percentage of the total target population (**1 mark**).

1 mark for understanding of sampling (eg limited group) **+ 1 mark** for idea of quota (eg idea of selecting specific people).

1(c) Explain **one** personal characteristic of Anya that enabled her to succeed as an entrepreneur. *(3 marks)*

Level	Descriptor	Marks
L3	Knowledge **and** good application	**3**
L2	Knowledge **and** limited application	**2**
L1	Knowledge	**1**

Possible characteristics might include the following:

- passion – Anya had a passion for good food and was excited about entrepreneurship
- the ability to spot and take advantage of opportunities – Anya spotted the opportunity when the restaurant became vacant
- Anya had good marketing skills and could cover all the skills needed except financial management
- vision, creativity and innovation – Anya was a creative individual
- confidence – Anya believed that she could make the business succeed
- flexibility – Anya adapted well when the business got into difficulties.

1(d) Explain **one** possible advantage to Anya's business of the decision to sell in a niche market. *(4 marks)*

Level	Descriptor	Marks
L3	Knowledge **and** good application	**4**
L2	Knowledge **and** limited application	**3–2**
L1	Knowledge	**1**

Relevant answers might include the following:

Definition: a niche market is a relatively small and identifiable segment of a larger market

- this market is growing as more people are migrating from Eastern Europe
- there is no direct competition, and Anya expected 180 customers
- operating in a niche market helps Anya to target her marketing.

1(e) Based on the information in the case study and the data in **Figure 1**, calculate Anya's **original** budgeted profit for the 13 weeks, 1 February 2010 to 2 May 2010. *(5 marks)*

Correct answer **£11 700** **(5 marks)**

Cumulative marking

Profit = Total Revenue – Total Cost
Or = TR – TC
Or implicit understanding shown in calculation — 1 mark

Correct calculation of budgeted income
Or budgeted expenditure — 2 marks

Correct calculation of other part
ie budgeted expenditure or budgeted income — 1 mark

Correct calculation of budgeted profit — 1 mark

Example of correct calculation using above method

(Use OFR if any earlier calculations are incorrect).

Budgeted income = Average number of customers per week x Average spending per customer x Number of weeks
= 180 x £25 x 13 weeks
= £4 500 x 13 weeks
= £58 500

Budgeted expenditure = Fixed costs + Variable costs
= {13 x £1 800} + {14 040 + 9 360}
= £23 400 + £23 400
= £46 800

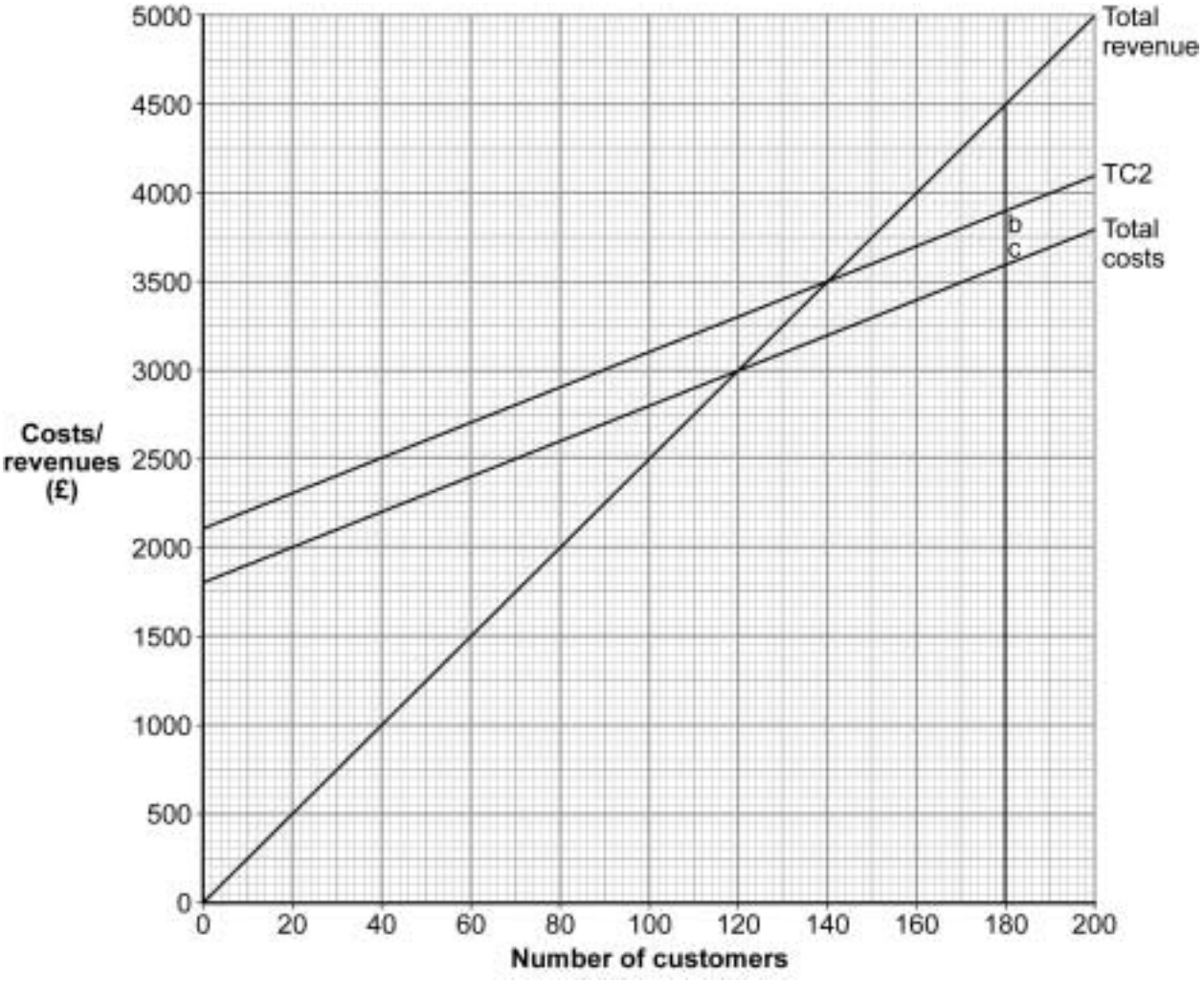
Budgeted profit = £58 500 - £46 800 = £11 700

1(f) **Figure 2** shows the original weekly break-even situation for Anya's restaurant, based on her forecasts. However, her forecast weekly fixed costs increased from £1800 per week to £2100 per week.

Amend the break-even chart below to show:

(i) the new total costs line after the increase in fixed costs (label this TC2) *(2 marks)*

(ii) the decrease in forecast profit as a result of the increase in fixed costs, based on 180 customers per week (label this 'bc' in the diagram). *(2 marks)*



1(f)(i) Correct TC2 line shown **(2 marks)**

Partially correct TC2 line **(1 mark)**
TC2 line is above and parallel to original line **(1 mark) or**
TC2 line starts at £2100 but does not end at £3900 **(1 mark) or**
TC2 line ends at 'b' or £41 000 but does not start at £21 000 **(1 mark)**

1(f)(ii) Decrease in profit (bc) shown correctly **(2 marks)**

'bc' is plotted incorrectly but vertically above 180 customers and is somewhere at or above point 'c' **(1 mark) or**
area between the two TC lines is shaded to the right of the break-even point **(1 mark)**

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

2(a) Analyse **two** possible benefits to Anya of forming a partnership with Otto. *(10 marks)*

Level	Descriptor			Marks
L5	Good application	**and**	Good analysis	**10–9**
L4	Good application ***or*** analysis	**and**	Limited application ***or*** analysis	**8–7**
L3	Limited application ***and*** analysis	**or**	Good application ***or*** analysis	**6–4**
L2	Knowledge	**and/or**	Weak application/analysis	**3–2**
L1	Limited knowledge		Definition ***or*** benefit(s) identified	**1**

Definition: A partnership is a form of business in which two or more people operate for the purpose of making a profit. A partnership is unincorporated and so owners have unlimited liability.

Benefits from forming a partnership with Otto might include:

- Otto provided different skills that complemented Anya's skills
- Otto's personality inspired the staff, potentially increasing motivation and so helping efficiency and quality
- Otto had good organisational skills and managed the kitchen very efficiently
- shared ownership of the business brings Otto's skills into the business (and at a vital time when the business needed a new chef)
- Anya can focus on her main talents to help the business grow
- Anya and Otto can share ideas and plans
- Otto brings £50 000 into the business which overcame the cash flow problem
- Otto's £50 000 should also reduce the pressure of owing £40 000 to the venture capitalist, with an 18 month repayment period
- the partnership should find it easier than a sole trader to attract additional financial support from banks and venture capitalists.

NB: The fortunes of the business did pick up immediately after Otto joined.

2(b) Was Anya right to use venture capital to raise money to finance her business start-up rather than taking out a bank loan? Justify your view. *(14 marks)*

Level	Descriptor			Marks
L5	Good application	**and**	Good analysis	**9–8**
L4	Good application ***or*** analysis	**and**	Limited application ***or*** analysis	**7–6**
L3	Limited application ***and*** analysis	**or**	Good application ***or*** analysis	**5–4**
L2	Knowledge	**and/or**	Weak application/analysis	**3–2**
L1	Limited knowledge		Definition ***or*** benefit(s) identified	**1**

Definition: Venture capital is finance that is provided to small or medium-sized firms that seek growth but which might be considered as risky by typical investors or lenders.
A bank loan is finance provided by a bank for a specific purpose, repayable by a certain time/on which interest is charged.

Possible reasons for Anya choosing venture capital:

- Anya wanted the financial and buying expertise of the venture capitalist – he also helped with the initial budgeting
- the venture capitalist had relevant experience in setting up small restaurants
- he was prepared to offer a loan, allowing her to retain complete control of the business
- the loan was 18 months only, and so within 18 months she would have paid off the loan and have no debts
- the venture capitalist may be able to provide contacts and other advice to help Anya.

Possible reasons against Anya choosing venture capital:

- the venture capitalist would only be involved for 18 months; offering support for only a short period
- the budget suggests that Anya could pay off the loan in 18 months, but it would put her under pressure
- the venture capital loan was at a higher interest rate than that offered by the bank and it required more prompt repayment, increasing the level of risk for Anya. After 18 months the interest paid would be about £7200, twice as much as the bank loan.

Evaluation:

With the potential for a quarterly profit of £11 700, Anya would be unable to take much of the profit for personal or business use as the repayment of the loan would be a major problem. Having unlimited liability would add to the risk that already exists because the business is new and Anya lacks experience. The venture capitalist would cost £3600 more than a bank loan, but this might be money well spent if the venture capitalist's contacts and advice improve the business.

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 offers his/her ideas.

Level	Descriptor	Marks
E3	Candidate offers judgement plus full justification. Ideas are communicated using a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	**5–4**
E2	Candidate offers judgement plus limited justification. Ideas are communicated using a logical structure with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	**3–2**
E1	Candidate offers undeveloped judgement based on evidence. Ideas are communicated with some structure evident, with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	**1**

2(c) Anya claimed that the business's performance after 13 weeks was due solely to the quality of her business planning. To what extent do you agree with this statement?
(16 marks)

Level	Descriptor			Marks
L5	Good application	**and**	Good analysis	**11–10**
L4	Good application ***or*** analysis	**and**	Limited application ***or*** analysis	**9–7**
L3	Limited application ***and*** analysis	**or**	Good application ***or*** analysis	**6–4**
L2	Knowledge	**and/or**	Weak application/analysis	**3–2**
L1	Limited knowledge		Definition ***or*** benefit(s) identified	**1**

Definition: Business planning is the act of preparing for the future, involving the marketing, operational, HR and financial strategies of a business.
A business plan is a report describing the marketing, operational, HR and financial strategies of a business.

Possible factors suggesting good planning by Anya:

- Anya was creative – a key entrepreneurial skill
- her targeting of market segments appeared to be well-planned and her marketing plan 'raised a lot of awareness'
- she was very thorough in her preparation of a unique menu – this might help to achieve the high added value that she anticipated
- she discussed her business plan with a number of experts, gaining useful advice on legal matters, location and restaurant operations
- she appeared to use the expertise of the venture capitalist well
- Anya's financial planning and budgeting appeared to be thorough.

Possible factors suggesting poor planning by Anya:

- Anya was forced to involve Otto – he proved to be a big asset once he became involved, suggesting problems in her original recruitment policy
- Anya did not estimate her fixed costs correctly as they increased by £300 per month (see question **1(f)**)
- she put the business at risk by insisting on being a sole trader and later she still failed to identify the benefit of limited liability
- the loan from the venture capitalist put the business under pressure as it involved high interest payments and a short loan period
- her market research appears to be limited and based on a small sample, although it should have been useful in gathering opinions from her target market segment.

Other factors influencing success or failure:

- the local infrastructure was good
- she was fortunate to be able to take over a vacant restaurant which only needed some refurbishment
- there were significant successes and failures once the business had opened that appeared to have nothing to do with Anya's planning.

See next page for Evaluation.

Evaluation

Although there are a range of factors suggesting both good and poor planning, the evidence of the first month suggested that the plan was working well, overall. However, the failure/success after that point seems to have been dominated by other factors. Firstly, there was the resignation of the Head Chef. Although Anya may have had some responsibility for this, it was arguably not the result of bad planning. Secondly, Otto joining the business was not planned.

Overall, the success or failure of the business in the short term has been dominated by other factors, but Anya's planning appears to have established a business that should succeed in the long term, especially if the financial forecasts and actual financial performance are considered.

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.

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