Version 1.0: 0310



General Certificate of Education

Business Studies 1131

BUSS2 Managing a Business

Mark Scheme

2010 examination – January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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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 knowing and explaining 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: 40 marks**

1 (a) *Explain **two** possible reasons why The Authentic Food Company Ltd has a policy of developing new products.* *(5 marks)*

	Content **2 marks**	**Application** **3 marks**
Level 3		**3 marks** Good application of knowledge to *AFC Ltd*'s situation.
Level 2	**2 marks** Identifies two relevant reasons **or** has good understanding of new product development or equivalent.	**2 marks** Reasonable attempt to apply knowledge to *AFC Ltd*'s situation.
Level 1	**1 mark** Identifies single relevant reason **or** has limited understanding of new product development.	**1 mark** Limited attempt to apply knowledge to *AFC Ltd*'s situation.

Relevant answers might include the following:

- the owners of the business are very entrepreneurial and wanted to develop new ideas
- Lak and Kamal Basran wanted to expand their business, so new product development was essential
- the couple wanted to supply businesses in different industries
- the company supplies businesses with bespoke products
- having a wider product portfolio would help to make the business more secure
- to enable the company to enter new markets.

1 (b) *Analyse **two** possible reasons why The Authentic Food Company Ltd might decide to spend less on training its employees.* *(7 marks)*

	Content **2 marks**	**Application** **2 marks**	**Analysis** **3 marks**
Level 3			**3 marks** Good analysis of reason(s) for reducing the training budget with focus on how the company benefits.
Level 2	**2 marks** Two relevant reasons **or** good understanding of training **or** some equivalent combination.	**2 marks** Good application of answer to *AFC Ltd* context.	**2 marks** Reasonable analysis of reason(s) for reducing the training budget.
Level 1	**1 mark** Single relevant reason **or** limited understanding of training.	**1 mark** Limited attempt to apply answer to *AFC Ltd* context.	**1 mark** Limited analysis of reason(s) for reducing the training budget.

Relevant answers might include the following:

- training is the provision of job-related skills and knowledge
- the company is using more production line technology which may replace employees and reduce the need for training
- the company's falling profit margin means that it will seek to reduce costs – the director said rising costs have been a problem and the company spends a lot of money on training
- the company is vulnerable to having its employees poached if they are highly trained
- the introduction of new technology is likely to increase the company's training costs further – can it afford to sustain training at its current level?

1 (c) *To what extent has The Authentic Food Company Ltd's products been the most important element of its marketing mix?* *(14 marks)*

	Content **3 marks**	**Application** **2 marks**	**Analysis** **5 marks**
Level 3	**3 marks** Two relevant points **and** limited understanding of marketing mix **or** equivalent combination.		**5–4 marks** Good analysis of the importance of element(s) of the marketing mix – analysing fully the role of the product and/or other elements of the mix.
Level 2	**2 marks** Two relevant points **or** good understanding of the marketing mix **or** some equivalent combination.	**2 marks** Good application of knowledge to *AFC Ltd*'s situation.	**3–2 marks** Reasonable analysis of the element(s) of the marketing mix.
Level 1	**1 mark** Single relevant point **or** limited understanding of the marketing mix.	**1 mark** Limited attempt to apply knowledge to *AFC Ltd*'s situation.	**1 mark** Limited analysis of the element(s) of the marketing mix.

Relevant answers might include the following:

- the marketing mix is the combination of four major tools of marketing (price, product, promotion and place) used by a business to influence customer behaviour.

For the product being the most important element of *AFC Ltd*'s marketing mix:

- the company has used quality as a USP to help it to enter and grow within the frozen foods market
- the company's reputation means that it has taken the quality of its products into account when making decisions on the mix
- the company designs products for its customers based on discussions with individual customers to ensure that it meets their needs as fully as possible
- supplying high quality products has meant that the company has incurred additional costs, (eg from training) meaning that it has to reflect these in pricing decisions.

Against the product being the most important element of *AFC Ltd*'s marketing mix:

- the aim of Lak and Kamal to expand the business will make prices an important element of the mix
- recently, the company's falling profit margin may have influenced decisions on the marketing mix
- the company is expanding into new markets and this means that place will have become a more important element of the mix
- the company has expanded through entering new markets – promotion will have played a vital role in this growth
- the company has earned a reputation for quality – this will have required promotion at a B2B level
- the company will respond to decisions of its rivals in marketing mix decisions – especially if it wants to retain market leadership.

See next page for evaluation.

Ideas for evaluation might include the following:

- product is often considered to be the key element of the mix – this could be the case here
- pricing and promotion are bound to have been vital elements of the mix for a growing company
- the most important thing for the company is to have an integrated marketing mix.

Level	Descriptor	Marks
E2	Judgement plus good justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	4–3
E1	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.	2–1

1 (d) *Motivational techniques have been the main method used by The Authentic Food Company Ltd to create an effective workforce. Do you agree with this view? Justify your decision.* *(14 marks)*

	Content **3 marks**	**Application** **2 marks**	**Analysis** **4 marks**
Level 3	**3 marks** Two relevant points made **and** limited understanding of motivation or some equivalent combination.		**4–3 marks** Good analysis of the factor(s) influencing the effectiveness of the workforce, with clear analysis of factors leading to effectiveness.
Level 2	**2 marks** Two relevant points made **or** good understanding of motivation **or** equivalent combination.	**2 marks** Good application of knowledge to *AFC Ltd*'s situation.	**2 marks** Reasonable analysis of the factor(s) influencing the workforce.
Level 1	**1 mark** Single relevant point made **or** limited understanding of motivation.	**1 mark** Limited attempt to apply knowledge to *AFC Ltd*'s situation.	**1 mark** Limited analysis of the factor(s) influencing the workforce.

Relevant answers might include the following:

For motivational techniques being the most important reason for the company having an effective workforce:

- effective employees are promoted and rewarded with pay bonuses encouraging improved performances from the workforce
- the company's employees work in teams offering greater empowerment for employees thereby enhancing performance
- team working offers social benefits to employees and can therefore motivate
- the company's employees are involved in decision-making offering the chance for motivation by meeting esteem needs as well as better quality decisions possibly
- the company supports and encourages social activities – as recommended by Mayo!

Against motivational techniques being the most important reason for the company having an effective workforce:

- the company invests heavily in training and this should help to boost the performance of the workforce by giving it the appropriate skills for each individual job
- the company has a low level of turnover (8%) meaning it is retaining well trained employees who are likely to perform effectively
- the company has appointed new managers as it seeks to provide new skills within the workforce and to prevent spans of control widening too much
- the company has invested £1 million in production technology which contributes to the effectiveness of the workforce.

See next page for evaluation.

Issues for evaluation might include the following:

- the employees are obviously motivated well (they voted *AFC* as one of Britain's best employers) but there is limited evidence that this has made the workforce effective
- motivation is affected by other elements of managing a workforce such as training and this cannot be separated out
- arguably training is the most important factor – the company places great importance on it
- is there any real evidence that the company's workforce is effective? The company's profit margins are falling for example.

Level	Descriptor	Marks
E2	Judgement plus good justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5–3
E1	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.	2–1

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

2 (a) *Calculate Warwick Clothing Ltd's net profit margin for the 2009–2010 financial year.* *(6 marks)*

	Content **2 marks**	**Application** **4 marks**
Level 4		**4 marks** Correct calculation, expressing answer as a percentage.
Level 3		**3 marks** Calculation without percentage **or** single arithmetical error/omission.
Level 2	**2 marks** Shows good understanding of net profit margin through correct definition or formula.	**2 marks** Calculates net profit figure (correctly) only.
Level 1	**1 mark** Shows limited understanding of net profit margin through partial definition or incomplete formula (eg omits 'x 100').	**1 mark** Limited attempt at calculation, for example by calculating total costs correctly or net profit with single error.

	£000s
Sales revenue	46 200
Fixed costs	12 220
Labour costs	15 500
Material costs	13 425
Fuel and other costs	3 900
Total costs	**45 045**
Net profit	**1 155**
Profit margin = £1 155 x 100/£46 200	**2.50%**

2 (b) *Analyse **two** possible causes of the fall in the level of customer service given by Warwick Clothing Ltd.* *(8 marks)*

	Content **3 marks**	**Application** **2 marks**	**Analysis** **3 marks**
Level 3	**3 marks** Two relevant causes **and** limited understanding of customer service **or** equivalent combination.		**3 marks** Good analysis of cause(s) of declining customer service.
Level 2	**2 marks** Two relevant causes **or** good understanding of customer service **or** some equivalent combination.	**2 marks** Good application of answer to *Warwick Clothing Ltd* context.	**2 marks** Reasonable analysis of cause(s) of declining customer service.
Level 1	**1 mark** Single relevant cause **or** limited understanding of customer service.	**1 mark** Limited attempt to apply answer to *Warwick Clothing Ltd* context.	**1 mark** Limited analysis of cause(s) of declining customer service.

Relevant answers might include the following:

- customer service encompasses all the activities that affect the customer's experience of dealing with an organisation
- the company has moved towards a system of piece-rate pay which is unlikely to encourage attention to detail and meeting the differing needs of each customer
- cutting investment in training could have contributed to declining levels of customer service as employees may not have the necessary skills
- the rate of labour turnover has risen meaning that many new employees have been hired, making it more difficult to offer high levels of customer service
- the company's capacity utilisation has risen recently putting more pressure on its staff and other resources, making errors more likely.

2 (c) *Do you agree with Alan's decision to sub-contract work to another supplier to meet the increased level of sales? Justify your decision.* *(13 marks)*

	Content 3 marks	Application 2 marks	Analysis 4 marks
Level 3	**3 marks** Two relevant points **and** limited understanding of sub-contracting **or** equivalent combination.		**4–3 marks** Good analysis of the factor(s) affecting the decision – focus on the effects of the decision.
Level 2	**2 marks** Two relevant points **or** good understanding of sub-contracting **or** some equivalent combination.	**2 marks** Good application of knowledge to *Warwick Clothing Ltd*'s situation.	**2 marks** Reasonable analysis of the factor(s) affecting the decision.
Level 1	**1 mark** Single relevant point **or** limited understanding of sub-contracting.	**1 mark** Limited attempt to apply knowledge to *Warwick Clothing Ltd*'s situation.	**1 mark** Limited analysis of the factor(s) affecting the decision.

Relevant answers might include the following:

- sub-contracting takes place when a business uses a supplier to produce some proportion of its output.

For Alan's decision:

- his factory is operating near to full capacity and it would take time to increase productive capacity further
- the company is not profitable (its net profit margin is falling) and may not be able to afford to undertake the major investment needed to expand its capacity
- unit costs have been rising anyway and this could continue if he offers overtime to employees
- the initial contract is for six months only. Is it worth investing in new capacity for this time period?

Against Alan's decision:

- the Vietnamese supplier is unknown to Alan and may not supply clothing of acceptable quality – this is important on this order
- the transport of products from Vietnam could add to costs or lead to delays
- any delays or failings in quality may mean that *Warwick Clothing Ltd* does not win a further three-year contract.

Ideas for evaluation might include the following:

- this could be a good decision, if Alan can arrange to supply from his factory in the longer term
- the key issue here will be the quality of the products from Vietnam – Alan may be able to find out more about this.

See next page for evaluation grid.

Level	Descriptor	Marks
E2	Judgement plus good justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	4–3
E1	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.	2–1

2 (d) *Discuss which poses the greater threat to Warwick Clothing Ltd's future success: problems with cash flow **or** low levels of profitability.* *(13 marks)*

	Content 3 marks	Application 2 marks	Analysis 4 marks
Level 3	**3 marks** Two relevant points **and** limited understanding of cash flow or profits or equivalent combination.		**4–3 marks** Good analysis of the factor(s) affecting the decision – focuses on the threat to the company.
Level 2	**2 marks** Two relevant points **or** good understanding of cash flow or profits **or** some equivalent combination.	**2 marks** Good application of knowledge to *Warwick Clothing Ltd*'s situation.	**2 marks** Reasonable analysis of the factor(s) affecting the decision.
Level 1	**1 mark** Single relevant point **or** limited understanding of cash flow or profits.	**1 mark** Limited attempt to apply knowledge to *Warwick Clothing Ltd*'s situation.	**1 marks** Limited analysis of the factor(s) affecting the decision.

Relevant answers might include the following:

- profits are the surplus of sales revenue over total costs over a trading period
- cash flow is the movement of cash into and out of a business over a trading period.

For cash flow being the major issue:

- the company has agreed to offer the Airline 90 days' trade credit, which may add further to its cash problems – and this is a big order
- if the company expands further this will be likely to result in further cash outflows as it purchases materials and pays labour costs - it may result in overtrading
- the business is obviously operating at its overdraft limit and its Bank may take action if it occurs again
- Alan is committed to growth as an objective for his business – this is likely to put further pressure on his cash flow.

For profits being the major threat:

- the net profit margin is declining (NB: OFR), although piece-rate pay may improve it
- the levels of profit achieved by the business are very low in absolute terms
- the company is short of capacity and needs to undertake an investment to overcome this – low levels of profits will hamper this process
- the other shareholders in the business may be unhappy with the business's financial performance and wish to sell their shares.

Ideas for evaluation might include the following:

- much may depend on the attitude of the company's other shareholders
- cash flow may pose a greater threat to the business in the short term, whilst low profitability is a more significant threat in the long term.

See next page for evaluation grid.

Level	Descriptor	Marks
E2	Judgement plus good justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	4–3
E1	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.	2–1