

GCE



CCEA GCE Specimen  
Assessment Material for  
**Business Studies**

For first teaching from September 2016  
For first award of AS level in Summer 2017  
For first award of A level in Summer 2018  
Subject Code: 3210



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# Foreword

CCEA has developed new specifications which comply with criteria for GCE qualifications. The specimen assessment materials accompanying new specifications are provided to give centres guidance on the structure and character of the planned assessments in advance of the first assessment. It is intended that the specimen assessment materials contained in this booklet will help teachers and students to understand, as fully as possible, the markers' expectations of candidates' responses to the types of tasks and questions set at GCE level. These specimen assessment materials should be used in conjunction with CCEA's GCE Business Studies specification.

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# GCE Business Studies

## Specimen Assessment Materials

### Contents

<b>Specimen Papers</b>	<b>3</b>
Assessment Unit AS 1: Introduction to Business	3
Assessment Unit AS 2: Growing the Business	7
Assessment Unit A2 1: Strategic Decision Making	13
Assessment Unit A2 2: The Competitive Business Environment	19
<b>Mark Schemes</b>	<b>25</b>
General Marking Instructions	27
Assessment Unit AS 1: Introduction to Business	31
Assessment Unit AS 2: Growing the Business	43
Assessment Unit A2 1: Strategic Decision Making	55
Assessment Unit A2 2: The Competitive Business Environment	65

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**SPECIMEN PAPERS**

**DIVIDER FRONT**

**SPECIMEN PAPERS**

**DIVIDER BACK**



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# **Business Studies**

**Assessment Unit AS 1**

*assessing*

**Introduction to Business**

**[CODE]**

**SPECIMEN PAPER**

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## **TIME**

1 hour 30 minutes.

## **INSTRUCTIONS TO CANDIDATES**

Write your Centre Number and Candidate Number on the Answer Booklet provided.

You may use a calculator.

Answer **both** questions.

## **INFORMATION FOR CANDIDATES**

The total mark for this paper is 80.

Quality of written communication will be assessed in Question **1** parts **(b)**, **(c)** and **(d)** and Question **2** parts **(c)** and **(d)**.

Quantitative skills will be assessed in Question **1(a)** and Question **2(b)**.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Figures in brackets down the right hand side of pages indicate the marks awarded to each question or part question.

## **ADVICE TO CANDIDATES**

You are advised to take account of the marks for each part question in allocating the available examination time.

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Answer **both** questions

- 1 Study the information in the case study below, and answer the questions that follow.

**Eco Limited**

Eco Limited is a private limited company that has acquired a franchise to operate a petrol station in Belfast. The petrol station will sell fuel (petrol, diesel, gas and home heating oil) on behalf of a national oil company, and will operate as a franchisee on behalf of a national retailer (selling groceries, convenience foods and other items). The directors believe that Eco Limited has a competitive advantage compared to their competitors.

The management of Eco Limited believe that their bulk purchasing arrangements and advanced pump technologies will lead to cheaper prices at the petrol pump. The petrol station is the only facility located adjacent to a harbour complex, a motorway and a hospital. It is open 24 hours a day.

The franchise cost Eco Limited £1.35 million to acquire. The forecasted profits for the first four years are shown in the table below.

**Table 1: Forecasted Profit**

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Forecasted Profit £	62,000	98,000	107,000	112,000

It is estimated that 85,000 customers will use the facility in the first year. Eco Limited hope to increase this to 135,000 in the second year by means of a local advertising campaign. Eco Limited is confident that it will be able to use its premium quality products and high standards of customer service to retain these customers.

- (a) (i) Using the case study above, explain the term 'stakeholder group'. [2]
- (ii) Using the information in Table 1 above, calculate the percentage change (%) in forecasted profit between Year 3 and Year 4. [2]  
**Show your workings clearly.**
- (iii) Explain **one** benefit to Eco Limited of operating as a franchisee. [2]
- (b) Analyse **two** ways by which Eco Limited might achieve competitive advantage. [8]
- (c) Discuss **three** factors which the management team of a company such as Eco Limited might have considered before deciding to operate as a franchisee. [10]
- (d) Evaluate why Eco Limited should adopt a quality policy. [16]

- 2 Study the information in the case study below, and answer the questions that follow.

### Cuppa4U

Cuppa4U is a local coffee shop and is managed as a social enterprise by a local charity called YouthGo. The main objective of the coffee shop is to provide employment, training and work skills for the benefit of young adults not in employment, education or on approved training schemes.

It aims to provide customers with an original 'coffee house' experience. An element of the business strategy includes intensive staff training and incorporates excellent standards of customer service and team working.

Prospective applicants are encouraged to apply for part-time roles using the online recruitment system. This requires candidates to complete an application form and undertake a psychometric test.

The use of an online recruitment system has reduced Cuppa4U's paperwork and operating costs. Once appointed, staff undergo intensive 'on-the-job' training for a period of six months in order to develop key skills and gain experience in customer support operations. Management have observed a reduction in the number of customer complaints. This is illustrated in Table 2 below.

**Table 2: Summary Data**

	<b>2016</b>	<b>2015</b>
Operating Costs	£500	£600
Customer Complaints	62	97
Number of Customers	14,650	13,450

Staff are advised that non-monetary methods of motivation (such as free uniforms, flexible working hours and team working) are used as a means of achieving successful outcomes for the business.

- (a) Define the term 'social enterprise', and explain why Cuppa4U may be regarded as one. [4]
- (b) (i) Using the information in Table 2 above, calculate the number of complaints per 1,000 customers served in 2016. [2]  
**Show your workings clearly.**
- (ii) Calculate the percentage change (%) in operating costs from 2015 to 2016. [2]  
**Show your workings clearly.**
- (iii) Analyse **one** reason why Cuppa4U should use 'on-the-job' training. [4]
- (c) Discuss **three** impacts of online technology to Cuppa4U for recruiting staff. [10]
- (d) Evaluate the use of 'team working' in a business such as Cuppa4U. [18]

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**THIS IS THE END OF THE QUESTION PAPER**

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# Business Studies

Assessment Unit AS 2

*assessing*

Growing the Business

[CODE]

**SPECIMEN PAPER**

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## TIME

1 hour 30 minutes.

## INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.

You may use a calculator.

Answer **both** questions.

## INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in Question 1 parts **(b)**, **(c)** and **(d)** and Question 2 parts **(b)**, **(c)** and **(d)**.

Quantitative skills will be assessed in Question 1**(a)**, 1**(b)** and Question 2**(a)**.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Figures in brackets printed down the right-hand side of the pages indicate the marks awarded to each question or part question.

## ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

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Answer **both** questions

- 1 Study the information in the case study below and answer the questions that follow.

Jack Sturgeon worked for a large pharmacy retailer for seventeen years. Jack was initially employed as a Sales Associate in the Men's Healthcare Department, and five years ago was promoted to Store Manager. The business was taken over by a national retailer and Jack was made redundant earlier this year.

Upon being made redundant, Jack decided to use the money from his redundancy payment to set up his own business called 'Fresh'. The business sells natural and herbal beauty products aimed at men, women and children (soaps, bubble bath, moisturisers and skincare products) from shop premises located in Larne and also processes customer orders online. Jack had prepared the following cash flow forecast and has observed that the business has the potential to grow, in terms of sales revenues and market share.

**Table 1: Cash Flow Forecast**

	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>
<b>Cash flow in</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Cash Sales	4,000	2,000	5,000	5,220
Trade Receivables (debtors)	1,000	5,000	3,000	7,260
<b>Total</b>	<b>5,000</b>	<b>7,000</b>	<b>8,000</b>	<b>12,480</b>
<b>Cash flow out</b>				
Purchases	2,000	3,000	11,000	6,840
Wages and overheads	1,000	1,000	1,000	1,020
Outsourcing costs	2,000	2,000	2,000	1,510
<b>Total cash flow out</b>	<b>5,000</b>	<b>6,000</b>	<b>14,000</b>	<b>9,370</b>
<b>Net cash flow</b>	0	1,000	-6,000	?
<b>Opening Balance</b>	2,000	2,000	3,000	-3,000
<b>Closing Balance</b>	2,000	3,000	-3,000	?

Due to limited professional experience, Jack outsources the marketing, delivery information technology and website maintenance of Fresh along with some promotional activities at a fixed cost of £2,000 per month. At a recent seminar for small businesses, it was suggested that Jack should prepare a fixed budget for the next accounting period, and consider the use of alternative pricing policies such as penetration pricing and skimming pricing. Recent market research undertaken by Jack's marketing agency suggested that 60% of Jack's customers were unaware that the products could be purchased online using the website.

(a) With reference to Table 1 on the previous page, calculate the following figures in respect of December:

- (i) net cash flow [2]
- (ii) closing balance [2]

**Show your workings clearly.**

(b) Analyse **two** ways in which the cash flow in Jack's business can be improved further. [8]

(c) Discuss **three** ways in which the use of a fixed budget could help Jack manage his costs. [10]

(d) Evaluate the use of each of the following pricing policies to a business such as Jack's as a way of achieving growth in sales revenues:

- penetration pricing; and
- skimming pricing. [18]

**2** Study the information in the case study below and answer the questions that follow.

Josie runs a Cattery near Larne called 'Pet Homes'. It provides temporary accommodation and a grooming service for cats. It opened during 2014 and currently employs two staff. Josie recently decided to invest in a website – the website is managed by a Northern Ireland based firm specialising in website hosting, design and internet advertising.

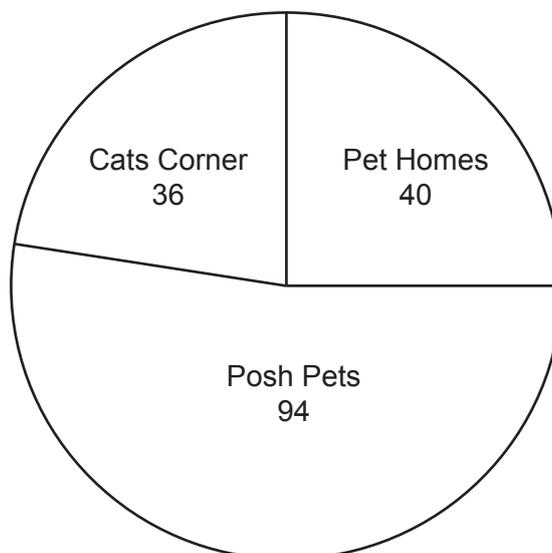
Pet Homes has the capacity to house 40 animals per week and has been operating at full capacity for the last 12 months. The following services are available for cats:

- washing;
- medicated ear wash;
- grooming;
- flea treatment;
- nail cutting; and
- hair conditioning.

Animal care services are available enabling owners to attend family functions, for example, weddings and away days. Products sold by Pet Homes include shampoo, flea powder and collars for cats.

Pet Homes faces competition from two rival firms, Cats Corner and Posh Pets. The chart below illustrates the number of cats housed by each firm per week in 2014.

**Figure 1: Number of cats housed per week Jan 2014 – Dec 2014**



The current website is mainly used for providing information to customers, including name, address, telephone number, prices, products and services available, and 'contact us' facilities. Josie is investigating how E-Business can enhance the services provided to customers (e.g. use of an 'app'; online booking system; use of mobile devices webcam facilities to enable customers to view their pets; and other innovative ideas).

Josie had recently undertaken market research. The results suggested that there is huge capacity to expand the business. She has calculated that an investment of £3,000 would be sufficient to expand capacity by 15%. The results also suggested that she could expand the business to accommodate up to another 20 animals (per week), such as rabbits and dogs.

Josie's accountant advised her to draw up a marketing plan.

- (a) (i) Define the term 'Market Research', and explain how Josie might use it to develop Pet Homes. [2]
- (ii) Using the information in Figure 1, calculate Pet Homes' market share for 2014. [2]
- (iii) Calculate the maximum number of animals that Pet Homes could accommodate if Josie went ahead with the £3,000 investment plan. [2]  
**Show your workings clearly.**
- (b) Analyse **two** ways in which Josie might segment the market for Pet Homes. [8]
- (c) Discuss **three** ways by which Josie could use E-Business to improve Pet Homes. [9]
- (d) Evaluate the usefulness of a Marketing Plan for a business such as Pet Homes. [17]

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# **Business Studies**

**Assessment Unit A2 1**

*assessing*

**Strategic Decision Making**

**[CODE]**

**SPECIMEN PAPER**

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## **TIME**

2 hours.

## **INSTRUCTIONS TO CANDIDATES**

Write your Centre Number and Candidate Number on the Answer Booklet provided.

You may use a calculator.

Answer **all** questions.

## **INFORMATION FOR CANDIDATES**

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions **2**, **3(c)**, **4** and **5**.

Quantitative skills will be assessed in Question **3(a)**, **3(b)**, **3(c)** and Question **5**.

Any working should be clearly shown since marks may be awarded for partially correct solutions.

Figures in brackets printed down the right-hand side of the pages indicate the marks awarded to each question or part question.

## **ADVICE TO CANDIDATES**

You are advised to take account of the marks for each question in allocating the available examination time.

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## Answer **all** questions

Study the information in the case study below and on the next page, and answer all the questions that follow.

### **Mack Plc**

Mack Plc is a public limited company that specialises in building schools, and currently employs 1,000 staff throughout the UK. In recent years it has reported increasing profit levels, benefiting from the growth of sales revenues, market share and new construction projects. The management team in Mack Plc are convinced that a participatory organisational culture both with its employees and its external stakeholders enables it to successfully deliver its strategic goals.

An 'open door' policy between managers and staff exists and two-way communication is frequently used. Team briefings (verbal and written) are used to discuss issues of common employer/employee interest and contributions from all team members are encouraged. The Managing Director commented that "... the use of team briefings helps to keep staff motivation levels high. In addition, staff often contribute new ideas which can be developed further". Other senior managers are not convinced of the merits of this approach.

At a recent meeting, the Board of Directors of Mack Plc were advised that the economic outlook does not look good. The Government has recently announced substantial cuts to public spending and therefore the amount of funding available for the construction of new schools in the UK and Northern Ireland. A government spokeswoman indicated that in the future, building contracts must be "... completed on time, within budget, to agreed quality standards and will provide value for money for taxpayers".

Mack Plc's sustainability strategy has enabled the directors to achieve a long-term objective of ensuring that the company complies with its environmental obligations. For example, before a school building can be constructed, a series of consultations take place with stakeholders including the government, local community, prospective teachers, parent teacher associations and students.

The issue of using recycled and sustainable materials has been a consistent topic. Kings Plc is a key supplier of building materials to Mack Plc. Kings Plc has recently reported a weak financial position and has issued two profit warnings to shareholders. Summary financial data related to the two companies is summarised in Table 1 on the next page.

**Table 1: Summary Financial Data for Mack Plc and Kings Plc**

Summary accounting data as at 30 November 2016	Mack Plc	Kings Plc
	(£000)	(£000)
Capital employed	30,000	16,000
Non-current liabilities	7,500	12,500
Current assets	7,800	16
Current liabilities	3,800	5,400
Net profit for year	6,500	16
<b>Other information:</b>		
Current ratio	2.05:1	0.003:1
Gearing ratio	25%	78%
Return on capital employed	22%	
Labour turnover	5%	23%

Kings Plc specialises in developing environmentally friendly and technologically advanced building products. One such product is called the 'eco-classroom'. This product line is produced in modular units at the factory, shipped as 'flat packs' and assembled on site.

The success of the 'eco-classroom' product lies in its unique design, high insulation standards, use of recycled materials and renewable energy. However, the 'eco-classroom' product line requires additional funding to support research, product launch and marketing activities, which the management team of Kings Plc have advised is not available.

The Board of Directors of Mack Plc are planning a takeover bid for Kings Plc. The cost of the takeover (initial investment) will amount to £7.5m. The estimated cash flows arising after the acquisition are summarised in Table 2.

**Table 2: Kings Plc cash flows post-aquisition**

Year 0	Year 1	Year 2	Year 3
-£7,500,000	£2,500,000	£2,500,000	£4,250,000

The directors of Mack Plc expect that the takeover of Kings Plc will enhance security of supply of building materials, acquire innovative products and achieve business growth.

- 1 (a) Define the term 'participatory organisational culture', and explain how it is used within Mack Plc. [3]
- (b) Discuss **two** reasons why organisational culture might be important to the Board of Directors of Mack Plc. [6]
- 2 Analyse Mack Plc's current strategic position using a SWOT analysis. [12]
- 3 (a) Using the data in Table 1, calculate the ROCE for Kings Plc. [2]  
**Show your workings clearly.**
- (b) Using the data in Table 2, calculate the:
- (i) Payback. [2]
- (ii) Net Present Value (NPV) assuming a discount factor of 10% as shown below. [5]  
 You should show the discounted cash flow for each year.  
**Show your workings clearly.**

**Discount factors @ 10%**

Year 0 (initial investment)	Year 1	Year 2	Year 3
1.00	0.91	0.83	0.75

- (c) Evaluate the usefulness of the Net Present Value (NPV) method of investment appraisal as an aid to decision making in Mack Plc. [12]
- 4 One of the Mack Plc's business objectives is growth.  
 Evaluate the impact of this objective on **four** different stakeholder groups. [24]
- 5 Evaluate **four** ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making. [24]

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# Business Studies

Assessment Unit A2 2

*assessing*

The Competitive Business Environment

**[CODE]**

**SPECIMEN**

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## TIME

2 hours.

## INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.  
You are strongly recommended to spend 10 minutes reading all of the information sources **and** questions before writing your answers.  
You may use a calculator.  
Answer **all** questions.

## INFORMATION FOR CANDIDATES

The total mark for this paper is 90.  
Quality of written communication will be assessed in Questions **2(b)**, **3(b)**, **4**, **5(b)** and **6**.  
Quantitative skills will be assessed in Questions **3(a)** and **5(a)**.  
Any working should be clearly shown since marks may be awarded for partially correct solutions.

## ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

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## THE COMPETITIVE BUSINESS ENVIRONMENT

Study the information in the case study and answer the questions that follow.

### Mash Direct Limited

Mash Direct Limited is a private limited company located in County Down, specialising in producing quality, convenient potato and vegetable dishes. The management team's objective is to ensure growth of the business and they are keen to pursue a number of strategies aimed at achieving this. Mash Direct Limited's participation in the global market has resulted in increased levels of sales revenues and profitability.

A sample of the company's product range is summarised in Table 1 below:

**Table 1: Mash Direct Limited Product Range**

<b>PRODUCT LINE</b>	<b>PRODUCT</b>
Everyday Mash	Mashed Potato
Easy Lunch (Mash Pots)	Sausages and mash
Family Favourites	Leeks and a Cheese Sauce
Seasonal	St. Patrick's Day Mash
BBQ Favourites	Chilli Baby Bakes
Croquettes	Potato Croquettes
Make it a Meal	Duck Fat Roast Potatoes
Vegetable Burgers	Vegetable Burgers with Spring Cabbage

Innovation is important when developing new products. Mash Direct Limited state that: "... [our food is] steam cooked to perfection to ensure the delicious taste and texture of homemade food", thus representing a unique selling point for the business. The product range is suitable for microwave and oven heating, free from artificial flavourings, preservatives and colourings, and is low in salt.

The management team are currently pursuing a strategy of 'new product development' in respect of the 'Easy Lunch (Mash Pots)' product line, which would allow Mash Direct Limited to take advantage of the lunchtime consumer market.

Feedback from customers indicates that 'convenience' is paramount. Competitive pricing of the product range is also an important consideration in the global convenience food market.

Market research already undertaken by staff enables the company to pursue a Corporate Social Responsibility strategy, aimed at meeting the needs of customers in markets such as the 'healthy lifestyle' market (e.g. customers who prefer to consume healthier foods to match their lifestyles, for example users of gyms/leisure facilities).

The company has won a number of prestigious awards, including for example, the Grocer New Product Award in the Meal Accompaniments Category (2014). The management team and staff actively engage in a range of policies which support their corporate social responsibilities, particularly in respect of product design, production processes and successful marketing of the company's product range. Food safety is of paramount importance to the company.

The company sells its product range in both domestic and international markets. The company currently exports its product range to customers in Europe and the Middle East. In addition, Mash Direct Limited recently won a contract to supply seven product lines to Asda, which will see its products available in almost 200 Asda stores across England.

The international market represents a significant proportion of the company's sales revenues (currently estimated at 70%), allowing the business to take advantage of economies of scale.

A new market currently being considered by the management team is the export of a range of the company's products to consumers located in the United States of America (USA). The use of direct air flights between Ireland and the USA affords Mash Direct Limited a competitive advantage, since this allows distribution of the company's products direct to American consumers. However, participation in global trading is risky for all Northern Ireland businesses, including Mash Direct Limited. Risks include (but are not limited to):

- exposure to volatile exchange rates which may decrease profitability;
- the imposition of trade barriers by a foreign government and increased costs resulting from transport/logistical activities; and
- product design and product promotion activities related to specific overseas markets.

The following data given in Table 2 below, has recently been reported:

**Table 2: Mash Direct Limited Key Performance Indicators**

<b>Key Performance Indicators</b>	<b>2013</b>	<b>2012</b>
Sales Revenue	£10.66m	£9.51m
Gross Profit	£0.61m	£0.47m

The management team at Mash Direct Limited actively pursue a strategy of sustainability. Examples of such activities undertaken by the company include:

- recycling water on company premises;
- crop rotation and efficient soil management of their farmland;
- recycling waste from production processes (e.g. vegetable peelings can be used for animal feeds); and
- efficient stock management.

These policies enable the company to compete more effectively in the global market.

As part of the global marketing strategy, Mash Direct Limited operate a website ([www.mashdirect.com](http://www.mashdirect.com)). This assists with product promotion activities and the management team use various forms of social media (including Facebook, Twitter, YouTube and Pinterest) as part of a dedicated E-Business Strategy. However, the website does not currently enable customers to purchase the company's products online. Other promotional activities include sponsorship activities, use of an effective public relations strategy and excellent standards of customer support.

In order to assist Northern Ireland companies to compete more effectively in the global market, the Northern Ireland Assembly recently announced its intention to lower the rate of Corporation Tax from 20% to 12.5% – comparable to the rate of Corporation Tax levied in the Republic of Ireland.

The company currently has job vacancies and is intending to recruit staff to roles such as customer support and product ambassadors to support a customer-led global marketing strategy.

The management team are reviewing two strategic investment proposals aimed at increasing future profitability of the business. Due to budgetary constraints, only the most profitable proposal will be implemented.

### **Proposal 1: USA Market**

The directors are considering the total costs/benefits of exporting some of their product lines to consumers in the USA. It is estimated that up to 318 million potential customers might be interested in this product range if it is exported to the USA. The estimated sales revenues amount to £585 800, whilst the estimated variable costs amount to £319 400.

Market research suggests that consumer tastes in the USA are similar to those in Northern Ireland, management are confident that they can benefit from economies of scale in this particular market in order to achieve greater levels of sales quantities and sales revenues, compared to the European market.

### **Proposal 2: European Market**

The directors are considering the total costs/benefits of exporting some of their product lines to consumers in Europe. Market research data suggests that approximately 500 million potential customers might be interested in this product range. The estimated sales revenues amount to £396 400, whilst the estimated variable costs amount to £174 650.

Mash Direct Limited may consider licensing or a joint venture to enter either the USA or European market.

Sources: (i) [www.mashdirect.com/our-story](http://www.mashdirect.com/our-story); (ii) [www.mashdirect.com/business](http://www.mashdirect.com/business); (iii) <http://www.mashdirect.com/enterprise-minister-commends-mash-direct-for-exports-to-dubai>; (iv) Interview with T Hamilton, Director, Mash Direct, 8.10.14.

**Using the information provided and your own knowledge and understanding, answer all six questions.**

**Show all your workings as appropriate.**

- 1 (a) Define the term 'Global Marketing', **and** explain **one** way in which it enables a company such as Mash Direct Limited to compete more effectively in the global market. [4]
- (b) Explain **two** advantages to a company such as Mash Direct Limited of using E-business as part of their global marketing strategy. [4]
- 2 (a) Define the term 'Corporate Social Responsibility' (CSR), and explain how this can be used to support the marketing of Mash Direct Limited's product range. [4]
- (b) Analyse the possible impact of Mash Direct Limited's sustainable activities on its competitiveness. [6]
- 3 (a) Calculate (to two decimal places), Mash Direct Limited's Gross Profit Margin for 2012 and 2013. [2]
- (b) The typical Gross Profit Margin for this industry is 3%.
- Analyse possible reasons for the difference between Mash Direct Limited's Gross Profit Margin and the industry average. [9]
- 4 Evaluate the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on a company such as Mash Direct Limited. [16]
- 5 (a) Using the case study calculate and compare the contribution for Proposal 1 and Proposal 2. [5]  
**Show your workings clearly.**
- (b) Using relevant information from the case study, and your own knowledge and understanding, evaluate each proposal and make a recommendation to the directors of Mash Direct Limited as to whether they should adopt Proposal 1 or Proposal 2. [20]
- 6 Evaluate licensing and joint ventures as methods of entering a new global market for a company such as Mash Direct Limited. [20]

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**MARK SCHEME**

**DIVIDER FRONT**

**MARK SCHEME**

**DIVIDER BACK**



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# **Business Studies**

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# **GENERAL MARKING INSTRUCTIONS**

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## **General Marking Instructions**

### ***Introduction***

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

### ***Assessment objectives***

Below are the assessment objectives for GCE Business Studies.

Candidates should be able to:

- AO1** Demonstrate knowledge of terms, concepts, theories, methods and models to show an understanding of how individuals and organisations are affected by and respond to business issues.
- AO2** Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues.
- AO3** Analyse issues within business, showing an understanding of the impact of external and internal influences on individuals and organisations.
- AO4** Evaluate quantitative and qualitative information to make informed judgements and propose evidence-based solutions to business issues.

### ***Quality of candidates' responses***

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17 or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

### ***Flexibility in marking***

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

### ***Positive marking***

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17 or 18-year-old GCE candidate.

### ***Awarding zero marks***

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

### **Marking calculations**

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations. If a candidate gives the correct answer without showing their working out, full marks should be awarded.

### **Types of mark schemes**

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

### **Levels of response**

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

### **Quality of written communication**

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within either 3 or 4 levels of response.

Where there are three levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is good.

Level 3: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

**Level 1 (Basic):** The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Level 2 (Good):** The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

**Level 3 (Excellent):** The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a very high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

Where there are four levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is good.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

**Level 1 (Basic):** The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Level 2 (Satisfactory):** The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a satisfactory standard to make meaning evident.

**Level 3 (Good):** The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

**Level 4 (Excellent):** The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.



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**2017**

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# **Business Studies**

Assessment Unit AS 1

*assessing*

Introduction to Business

**[CODE]**

**SPECIMEN**

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**MARK  
SCHEME**

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## 1 (a) (AO1, AO2)

(i) Using the case study, explain the term 'stakeholder group'.

A stakeholder is a person, group or organisation which has an interest or concern in another business entity. [1]

Any relevant example from the case study, e.g. management, customers. [1] [2]

(ii) Using the information in Table 1, calculate the percentage change (%) in forecasted profit between Year 3 and Year 4. Show your workings clearly.

Profits are expected to increase from £107,000 to £112,000 between Years 3 and 4.

$$\frac{112,000 - 107,000}{107,000} \times \frac{100}{1} = 4.67\%$$

Marking: [2] for stating 4.67% (correctly annotated).

[1] for correct method but incorrect answer.

[0] for incorrect method and incorrect calculation. [2]

(iii) Explain one benefit to Eco Limited of operating as a franchisee.

Any one from:

- a recognised product [1] the chance of failure is reduced [1]
- support for advertising and promotions [1] this might be provided by the franchisor locally or nationally [1] [2]

Valid alternative answers accepted.

(b) (AO1, AO2, AO3)

Analyse **two** ways by which Eco Limited might achieve competitive advantage.

Competitive advantage occurs when a business has an attribute or combination of attributes allowing it to outperform its competitors.

**Two** ways of achieving this:

- Cost advantage: occurs when a business can provide a product/service to customers at a lower cost than its rivals; Eco Limited will offer low prices on key items which customers are price-aware; achieved through favourable bulk purchasing arrangements.
- Differentiation advantage: an element of product/service offered by a business which competitors are not offering or are unable to offer; Eco Limited has a unique location; it uses advanced pump technologies in service delivery.
- Eco Limited provides a range of premium quality products.

Valid alternative answers accepted.

The question requires only **two** ways as to how Eco Limited might achieve competitive advantage. Any additional ways will not attract any marks.

**Level 3 [7]–[8]**

An excellent response demonstrates:

- Well-focused and sound analysis of two appropriate ways competitive advantage might be achieved
- Comprehensive and relevant knowledge and understanding of competitive advantage
- Appropriate use of relevant source material to analyse the two ways identified
- An excellent quality of written communication

**Level 2 [4]–[6]**

A good response demonstrates:

- Focused analysis of two appropriate ways competitive advantage might be achieved
- Good, accurate knowledge and understanding of competitive advantage
- Mostly appropriate use of relevant source material to analyse the two ways identified
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic analysis of the ways in which competitive advantage might be achieved
- Basic knowledge and understanding of competitive advantage
- References to source material may not be appropriate
- A basic quality of written communication

Answers not worthy of credit [0] marks

[8]

(c) (AO1, AO2, AO3)

Discuss **three** factors which the management team of a company such as Eco Limited might have considered before deciding to operate as a franchisee.

**Factors that the management of Eco Limited are likely to have considered prior to deciding to operate as a franchisee include:**

- Branding – trading under the recognised brand names of a national fuel company and a national retailer would enhance Eco Limited’s reputation and increase market share/revenues.
- Revenue potential – forecast is to generate additional revenue.
- Reduced risk – participating in two national franchise networks will reduce financial and business risk for Eco Limited as the franchisor will provide assistance in operating the business.
- Marketing support – the franchisors will provide marketing support to Eco Limited, in terms of marketing, customer support, promotional campaigns and price policies to ensure business growth.
- Franchisor support – this might extend to issues such as marketing, staff uniforms, store layouts, pricing policies and ensure a profitable business operation for Eco Limited.
- Reliable supply chain – the management team of Eco Limited can take advantage of bulk purchasing arrangements and reliable supply chain management to ensure availability of stocks, at competitive prices for customers.
- Large initial payment – franchisors usually require large initial payments in order to secure the franchise – this may in turn be expensive to Eco Limited and the shareholders may have to wait for a long time to experience a return on investment.
- Limited autonomy – Eco Limited’s management team may find that they have limited autonomy in managing the business on a daily basis, i.e. limited control over prices of fuel and pricing policy of the stock in the shop.
- Restricted supply options – franchisors may insist that only the stocks supplied by them can be sold through the franchise, hence limiting Eco Limited’s ability to supply customers with goods.
- Limited profit potential – on-going payments to franchisor by Eco Limited may limit the potential for profit growth.
- Long term nature of contract – this might restrict the growth of Eco Limited since a franchisor may insist on preferential treatment as part of the franchise contract, which may prove disadvantageous to Eco Limited.

Valid alternative answers accepted.

The question requires **three** valid factors that management at Eco Limited may have considered prior to deciding to operate as a franchisee. Any additional valid factors will not attract any marks.

**Level 3 [8]–[10]**

An excellent response demonstrates:

- Well-focused and sound discussion of three appropriate factors the management team might have considered before deciding to operate as a franchisee
- Comprehensive and relevant knowledge and understanding of all three factors the management team might have considered
- An excellent quality of written communication

**Level 2 [4]–[7]**

A good response demonstrates:

- Focused discussion of up to three appropriate factors the management team might have considered before deciding to operate as a franchisee
- Good knowledge and understanding of up to three factors the management team might have considered
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic discussion of the factors the management team might have considered before deciding to operate as a franchisee
- Basic knowledge and understanding of up to three factors the management team might have considered
- A basic quality of written communication

Answers not worthy of credit [0] marks

[10]

**(d) (AO1, AO2, AO3, AO4)**

Evaluate why Eco Limited should adopt a quality policy.

A quality policy is likely to encourage all employees to contribute to the continuous improvement in quality in respect of operating the business.

**Possible valid reasons why Eco Limited would adopt a quality policy:**

- Enhanced customer satisfaction – this could lead to greater levels of customer satisfaction with the products/services provided to customers; might lead to a reduction in customer complaints and improved staff behaviours, although this is not always the case.
- Increased customer loyalty – if customers are aware that the business has a quality policy and they have a satisfactory/excellent experience, they are likely to return to Eco Limited, and thus it could benefit from increased customer loyalty (e.g. branded products, cheap fuel, store loyalty cards)
- Enhanced service quality – Eco Limited would wish to provide customers with high standards of service quality in order to enhance its reputation in the local community and increased

customer throughput, i.e. a 58.8% increase in customers is expected after the first year; this demonstrates that results of adopting a quality policy are not always experienced immediately.

- Greater employee involvement – use of a quality policy might be motivational to employees, by setting minimum standards of service, although this does require meaningful senior management commitment, which may not be evident.
- Improved business performance – Eco Limited turnover might increase, as well as customer numbers (demand) – these targets may be unrealistic and may not necessarily arise from the adoption of a quality policy.
- Improved competitiveness – the adoption of a quality policy might lead to improved competitiveness in Eco Limited, as it appears to have a competitive advantage, e.g. unique location and advanced technology, although such unique selling points may be costly and the perceived benefits not realised.

Valid alternative answers accepted.

### **Level 3 [12]–[16]**

An excellent response demonstrates:

- Comprehensive relevant and accurate knowledge and understanding of the need for Eco Limited to adopt a quality policy
- Highly appropriate, clear and logical judgement of the need for Eco Limited to adopt a quality policy, based on well focused and sound analysis
- Appropriate use of relevant source material to address the need for Eco Limited to adopt a quality policy
- An excellent quality of written communication

### **Level 2 [7]–[11]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of the need for Eco Limited to adopt a quality policy
- An appropriate, clear and logical judgement of the need for Eco Limited to adopt a quality policy, based on well focused analysis
- Mostly appropriate use of relevant source material to address the need for Eco Limited to adopt a quality policy
- A good quality of written communication

### **Level 1 [1]–[6]**

A basic response demonstrates:

- Basic knowledge and understanding of the need for Eco Limited to adopt a quality policy
- Basic judgement based on limited analysis of the need for Eco Limited to adopt a quality policy
- References to source material may not be appropriate
- A basic quality of written communication

Answers not worthy of credit [0] marks

[16]

40

## 2 (AO1, AO2)

Define the term 'social enterprise', and explain why Cuppa4U may be regarded as one.

**(a) Definition** – [2] available

A social enterprise is a business which profits from selling goods/ services. Profits, however, are not generated to benefit shareholders, but instead used to address social problems, enhance communities and the environment. Profits are reinvested in the business or the local community.

Marking: [2] for a detailed definition.  
[1] for a brief definition.

**Explanation** – [2] available

This can include for example:

- Employment opportunities are created by Cuppa4U for young adults not in employment or education.
- Employees gain training in the workplace and experience of providing excellent standards of customer service.

Valid alternative answers accepted.

Marking: [2] for a detailed explanation.  
[1] for a brief explanation.

[4]

**(b) (i)** (AO1, AO2, AO3)

Using the information in Table 2 above, calculate the number of complaints per 1,000 customers served in 2016. Show your workings clearly.

Number of customer complaints per 1,000 customers.

$$\text{Served} = \frac{62}{14,650} \times 1000 = 4.232 \text{ complaints per 1,000 customers}$$

Marking: [2] for stating 4.232  
(accept answer rounded to 4).  
[1] for correct method but incorrect answer.  
[0] for incorrect method and incorrect calculation. [2]

**(ii)** Calculate the percentage change (%) in operating costs from 2015 to 2016. Show your workings clearly.

$$\frac{\text{£600 (2015)} - \text{£500 (2016)}}{\text{£600}} \times \frac{100}{1} = 16.7\% \text{ reduction}$$

Marking: [1] for correct identification of change in the operating costs.  
[1] for correct calculation of percentage change.  
[0] for incorrect method and incorrect calculation. [2]

(iii) Analyse **one** reason why Cuppa4U should use ‘on-the-job’ training.

Reasons why Cuppa4U should use ‘on-the-job’ training:

- Cost effectiveness – usually cheaper than ‘off-the-job’ training.
- Job specific nature of training – specific to a coffee shop run by Cuppa4U.
- Tailored training programmes – specific to catering industry and Cuppa4U’s business needs.
- Training conducted in familiar surroundings by colleagues.
- Staff integrated more quickly – enables staff to network with customers, meet new people, identify career development opportunities in Cuppa4U/catering industry/charitable sector.
- Reduced disruption – staff should be motivated/inspired by excellent standards of customer service and meet business needs of Cuppa4U.
- Maintains/improves quality of customer service – training outcome observed as a reduction in customer complaints from 100 to 50, i.e. a reduction of 50%.

Valid alternative answers accepted.

The question requires only **one** reason as to how Cuppa4U should use ‘on-the-job’ training. Any additional reasons will not be awarded marks.

**Level 2 [3]–[4]**

A good response demonstrates:

- Focused analysis of one appropriate reason why Cuppa4U should use on-the-job training
- Appropriate use of relevant source material to analyse why Cuppa4U should use on-the-job training

**Level 1 [1]–[2]**

A basic response demonstrates:

- Basic analysis of one appropriate reason why Cuppa4U should use on-the-job training
- References to source material may not be appropriate

Answers not worthy of credit [0] marks

[4]

(c) (AO1, AO2, AO3)

Discuss **three** impacts of online technology to Cuppa4U for recruiting staff.

These might include:

- Online recruitment is much more cost effective – no design/print advertisement costs which reduces cost-per-hire. Cost-per-hire was initially £600, reducing to £500 after one year – a £100 cost reduction of benefit to Cuppa4U.
- Online recruitment is much faster – people can respond instantly using Cuppa4U’s website, with 24/7 access; beneficial if recruiting staff at short notice.
- Online recruitment can target a wider pool of talent – no geographical boundaries; Cuppa4U can employ the best available talented staff.
- People are increasingly making use of the internet as a job search tool – this might lead to omission of talented candidates who are computer illiterate, thus Cuppa4U might miss potential employees.
- Possible high number of applications – Cuppa4U staff might need to allocate time for recruitment/selection activities and analysing test results; need to prioritise workload.
- Need to ensure technology used is fit for purpose – online security etc; People may not make application if there is a doubt, which can be costly to Cuppa4U.

Valid alternative answers accepted.

The question requires **three** valid impacts of online technology on Cuppa4U in recruiting staff. Any additional valid impacts will not be awarded marks.

### **Level 3 [8]–[10]**

An excellent response demonstrates:

- Well-focused and sound discussion of three appropriate impacts of online technology to Cuppa4U for recruiting staff
- Comprehensive, relevant and accurate knowledge and understanding of all three appropriate impacts
- Appropriate use of relevant source material to analyse all three appropriate impacts
- An excellent quality of written communication

### **Level 2 [4]–[7]**

A good response demonstrates:

- Focused discussion of up to three appropriate impacts of online technology to Cuppa4U for recruiting staff
- Good, accurate knowledge and understanding of up to three appropriate impacts
- Mostly appropriate use of relevant source material to analyse up to three appropriate impacts
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic discussion of up to three appropriate impacts of online technology to Cuppa4U for recruiting staff
- Basic knowledge and understanding of up to three appropriate impacts
- References to source material may not be appropriate
- A basic quality of written communication

Answers not worthy of credit [0] marks

[10]

**(d) (AO1, AO2, AO3, AO4)**

Evaluate the use of 'team working' in a business such as Cuppa4U.

Responses may include:

- Staff interaction – staff develop friendships, sense of unity and focus on achievement of a common goal; in Cuppa4U, these elements are essential if staff are operating in a public high profile environment with customers present; however staff personalities might clash and thus perceived benefits might not materialise.
- Job satisfaction – staff pool talents/skills to enhance individual performance and enhance job satisfaction; might motivate Cuppa4U's staff to achieve high levels of job satisfaction and excellent standards of customer service; however not all staff may be team players.
- Increased productivity – team working shares common resources; should reduce time to complete tasks and improve productivity in Cuppa4U, which leads to reduced costs and customer complaints, e.g. from 97 to 62 across the year.
- Creativity – Cuppa4U might find that staff are more creative and may suggest improvements in customer service, quality, product ideas and managing the business.
- Learning – teamwork can reduce mistakes and improve efficiency of individual staff members, and thus lead to improved standards of customer service and reduced levels of customer complaints; some staff might need longer probationary periods in order to improve learning and 'on-the-job' training.
- Communications – these might be improved as information is shared between all team members; Cuppa4U might experience low levels of staff motivation if information is not communicated to all team members.
- Team Leader – this person needs to be effective and utilise leadership skills at all times; dysfunctional behaviour may not lead to efficiencies in Cuppa4U.

Valid alternative answers accepted.

**Level 4 [14]–[18]**

An excellent response demonstrates:

- Comprehensive, relevant and accurate knowledge and understanding of the use of team working in a business such as Cuppa4U
- Highly appropriate, clear and logical judgement of the use of team working in such a business, based on well focused and sound analysis
- An excellent quality of written communication

**Level 3 [10]–[13]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of the use of team working in a business such as Cuppa4U
- An appropriate, clear and logical judgement of the use of team working in such a business, based on focused analysis
- A good quality of written communication

**Level 2 [6]–[9]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the use of team working in a business such as Cuppa4U
- A suitable, appropriate judgement of the use of team working in such a business, based on some analysis
- A satisfactory quality of written communication

**Level 1 [1]–[5]**

A basic response demonstrates:

- Basic knowledge and understanding of the use of team working in a business such as Cuppa4U
- Basic judgement based on limited analysis of the use of team working in such a business
- A basic quality of written communication

Answers not worthy of credit [0] marks

[18]

40

**Total**

**80**

**AVAILABLE  
MARKS**

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# **Business Studies**

Assessment Unit AS 2

*assessing*

Growing the Business

**[CODE]**

**SPECIMEN**

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**MARK  
SCHEME**

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**1 (a) (AO1, AO2)**

With reference to Table 1, calculate the following figures in respect of December:

- (i) net cash flow  
[2] for correct calculation of: net cash flow: £3,110  
[1] for correct method but incorrect answer.
- (ii) closing balance  
[2] for correct calculation of: closing balance: £110  
[1] for correct method but incorrect answer.

[4]

**(b) (AO1, AO2, AO3)**

Analyse **two** ways in which the cash flow in Jack's business can be improved further.

- Increase cash receipts:
  - Persuade the debtors (trade receivables) to settle their accounts earlier and increase cash flow. Amounts vary from £1,000 to £7,260 in December – an increase of £6,260; may need to offer a discount to encourage early payment, but might be worth it to improve cash flows.
- Reduce running costs:
  - Running costs have steadily increased, mainly due to increased levels of purchases; Jack might ask the creditors (trade payables) for additional time to pay thus conserve/increase cash available in the business; purchases have risen from £2,000 in September to £11,000 in November.

Valid alternative answers accepted.

The question requires only **two** ways as to how Jack's business can further improve cash flow. Any additional ways will not attract any marks.

**Level 3 [7]–[8]**

An excellent response demonstrates:

- Well-focused and sound analysis of two appropriate ways in which the cash flow in Jack's business can be improved further
- Comprehensive and relevant accurate knowledge and understanding of the two ways to improve Jack's cash flow
- Appropriate use of relevant source material to analyse the two ways
- An excellent quality of written communication

**Level 2 [4]–[6]**

A good response demonstrates:

- Focused analysis of two ways in which the cash flow in Jack's business can be improved further

- Good, accurate knowledge and understanding of the two ways to improve Jack's cash flow
- Mostly appropriate use of relevant source material to analyse the two ways
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic analysis of up to two ways in which the cash flow in Jack's business can be improved further
- Basic knowledge and understanding of up to two ways to improve Jack's cash flow
- References to source material may not be appropriate
- A basic quality of written communication

Answers not worthy of credit [0] marks

[8]

**(c) (AO1, AO2, AO3)**

Discuss **three** ways in which the use of a fixed budget could help Jack manage his costs.

- A fixed budget would allow Jack to plan ahead – therefore, if November/December are his busy months (sales revenues appear to suggest this element of seasonality since cash flows are £8,000 and £12,480 respectively), then he can plan his spending on purchases to match anticipated demand levels; this would keep customers satisfied.
- A fixed budget would allow Jack to measure profits, since it allocates a fixed amount to costs and overheads. Thus a degree of certainty is provided to Jack, in respect of, for example, outsourcing costs and wages paid.
- A fixed budget would allow Jack to measure performance – if the amounts are fixed, any variation can be investigated and performance judged according to a baseline. If in one month, Jack actually spends less on outsourcing (e.g. £1,500) than budgeted (£2,000), then he has saved money and improved profits by £500.
- Cost control – a fixed budget facilitates cost control. If the budget is fixed, then in theory, no additional funds are available, thus the business has to 'live within its means' and is an effective way of controlling costs. Jack has to ensure that costs in each month are less than or equal to the budget limit established. This method of budgeting is ineffective if Jack varies the fixed limits imposed in the original budget.

Valid alternative answers accepted.

The question requires only **three** ways in which the use of a fixed budget might help Jack manage his costs. Any additional ways discussed will not attract any marks.

**Level 3 [8]–[10]**

An excellent response demonstrates:

- Well-focused and sound discussion of three appropriate ways in which the use of a fixed budget could help Jack manage his costs
- Comprehensive and relevant accurate knowledge and understanding of all three ways in which the use of a fixed budget could help Jack manage his costs
- Appropriate use of relevant source material to analyse all three ways in which the use of a fixed budget could help Jack manage his costs
- An excellent quality of written communication

**Level 2 [4]–[7]**

A good response demonstrates:

- Focused discussion of up to three appropriate ways in which the use of a fixed budget could help Jack manage his costs
- Good, accurate knowledge and understanding of up to three ways in which the use of a fixed budget could help Jack manage his costs
- Mostly appropriate use of relevant source material to analyse up to three ways in which the use of a fixed budget could help Jack manage his costs
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic discussion of up to three ways in which the use of a fixed budget could help Jack manage his costs
- Basic knowledge and understanding of the ways in which the use of a fixed budget could help Jack manage his costs
- References to source material may not be appropriate
- A basic quality of written communication

Answers not worthy of credit [0] marks

[10]

**(d) (AO1, AO2, AO3, AO4)**

Evaluate the use of each of the following pricing policies to Jack's business as a way of achieving growth in sales revenues:

- penetration pricing; and
- skimming pricing.
- **Penetration pricing policy:**
  - Jack would need to set low prices for products/services initially in order to entice customers to the shop/website, but would need to increase prices once Fresh has become established in the market.
  - Jack could use this pricing policy to build customer awareness and convince customers that the business is providing 'value for money' products.

- Jack could achieve growth of sales revenues by increasing customer awareness of Fresh and its product range, which could be very effective if sales revenues rise as forecasted.
  - Jack needs to exercise caution as setting prices too low would lead to lower sales revenues, reduced cash flows, cash deficits, and customers would expect low prices to become the norm.
- **Skimming pricing policy:**
    - Jack may find that initially setting high prices for some product lines would appeal to the more affluent/discerning customers; this market segment is prepared to pay a higher price for unique products, hence increasing sales revenues for Fresh – this has increased to £12,480.
    - Jack can take advantage of this pricing policy to build a relationship with customers to encourage repeat purchasing, which in turn would lead to growth in sales revenues as the business becomes established.
    - Jack might lose some revenues if the prices are set at too high a level and customers are priced out of the market, which might alienate potential customers – a poor experience would lead to loss of custom.

Valid alternative answers accepted.

The question requires an evaluation of the use of penetration and skimming pricing policies to Jack's business as a way of achieving growth in sales revenues.

#### **Level 4 [14]–[18]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the use of penetration and skimming pricing policies to Jack's business
- Highly appropriate, clear and logical judgement based on well focused and sound analysis of the use of penetration and skimming pricing policies
- An excellent quality of written communication

#### **Level 3 [10]–[13]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of the use of penetration and skimming pricing policies to Jack's business
- An appropriate, clear and logical judgement based on focused analysis of penetration and skimming pricing policies
- A good quality of written communication

**Level 2 [6]–[9]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the use of penetration and skimming pricing policies to Jack’s business
- A suitable, appropriate judgement based on reasonable analysis of penetration and skimming pricing policies
- A satisfactory quality of written communication

**Level 1 [1]–[5]**

A basic response demonstrates:

- Basic knowledge and understanding of the use of penetration and skimming pricing policies to Jack’s business
- Basic judgement based on limited analysis of the use of penetration and skimming pricing policies
- A basic quality of written communication

Answers not worthy of credit [0] marks

[18]

40

AVAILABLE  
MARKS

## 2 (a) (i) (AO1, AO2)

Define the term 'Market Research', and explain how Josie might use it to develop Pet Homes.

**Definition** - [1] available

Market research is any organised effort to gather information about a target market. It involves an element of research such as asking customers what they want, and finding out information about customer preferences.

**Explanation** - [1] available

The candidate can select any **one** of the following points and receive a maximum of 1 mark by applying information from the stimulus.

- The market research results indicate to Josie that customers with dogs and rabbits might use the services of her business, Pet Homes, for their animals.
- The market research results also indicate that there is scope to expand the business.

Valid alternative answers accepted. [2]

(ii) Using the information in Figure 1, calculate Pet Homes' market share for 2014.

[2] for correct calculation of market share.

$$(40/170) \times 100 = 23.53\%$$

[1] for correct method but incorrect calculation. [2]

(iii) Calculate the maximum number of animals that Pet Homes could accommodate if Josie went ahead with the £3,000 investment plan.

[2] for correct calculation of 46 animals.

$$40 \times (115/100) = 46$$

[1] for correct method but incorrect calculation. [2]

(b) (AO1, AO2, AO3)

Analyse **two** ways in which Josie might segment the market for Pet Homes.

- Methods of segmentation:
  - Product: animals cared for by Pet Homes include cats/dogs/ rabbits – this would enable Pet Homes to meet customer needs more effectively.
  - Service: services provided by Pet Homes include flea treatment, accommodation and medicated ear wash – this would allow customers to get their pets treated more conveniently.
  - Geographical: customers can come from Larne area or further afield, e.g. Counties Down, Fermanagh, Antrim - this improves convenience for customers.

Valid alternative answers accepted.

The question requires only **two** ways as to how Josie might segment the market. Any additional ways will not attract any marks.

### Level 3 [7]–[8]

An excellent response demonstrates:

- Well-focused and sound analysis of two appropriate ways in which Josie might segment the market for Pet Homes
- Comprehensive and relevant, accurate knowledge and understanding of the two ways
- Appropriate use of relevant source material to analyse the two ways
- An excellent quality of written communication

### Level 2 [4]–[6]

A good response demonstrates:

- Focused analysis of two ways in which Josie might segment the market for Pet Homes
- Good, accurate knowledge and understanding of the two ways
- Mostly appropriate use of relevant source material to analyse the two ways
- A good quality of written communication

### Level 1 [1]–[3]

A basic response demonstrates:

- Basic analysis of up to two ways in which Josie might segment the market for Pet Homes
- Basic knowledge and understanding of up to two ways
- References to source material may not be appropriate
- A basic quality of written communication

Answer not worthy of credit [0] marks

[8]

(c) (AO1, AO2, AO3)

Discuss **three** ways by which Josie could use E-Business to improve Pet Homes.

**Possible improvements:**

- Use of an 'app' to facilitate bookings/webcam facilities in Pet Homes – this might increase customer awareness and increase customer numbers.
- Implement an online booking system for Pet Homes' customers – this would increase sales revenues.
- Introduce webcam facilities to enable customers to view their pets in Pet Homes' accommodation facilities this would provide 'peace of mind' to customers and would increase customer satisfaction levels.
- Use of social media to promote the products/services of Pet Homes.
- Texting/emailing service to send reminders or alerts to customers to collect their animals from Pet Homes – this would increase customer satisfaction levels and levels of customers.

Valid alternative answers accepted.

The question requires only **three** ways in which E-Business could be used to improve Josie's business. Any additional points will not attract any marks.

**Level 3 [7]–[9]**

An excellent response demonstrates:

- Well-focused and sound discussion of three appropriate ways which Josie could use E-Business to improve Pet Homes
- Comprehensive and relevant, accurate knowledge and understanding of all three ways
- Appropriate use of relevant source material to analyse all three ways
- An excellent quality of written communication

**Level 2 [4]–[6]**

A good response demonstrates:

- Focused discussion of up to three appropriate ways which Josie could use E-Business to improve Pet Homes
- Good, accurate knowledge and understanding of up to three ways
- Mostly appropriate use of relevant source material to analyse up to three ways
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic discussion of up to three ways which Josie could use E-Business to improve Pet Homes

- Basic knowledge and understanding of up to three ways
- References to source material may not be appropriate
- A basic quality of written communication

Answer not worthy of credit [0] marks

[9]

**(d)** (AO1, AO2, AO3, AO4)

Evaluate the usefulness of a Marketing Plan for a business such as Pet Homes.

Identifies customer needs and wants:

- Enables Josie to determine expected levels of demand for product/services.
- Outlines methods of generating sales revenues/cash flows costs – Josie needs to anticipate sales revenues/prices and thus demand for the products/services to ensure growth of the business;
- Josie estimates that future expansion will cost £3,000 which requires financing.
- Aids in design of products/services that meet customer's needs – the size of accommodation for the various animals needs to be considered, e.g. rabbits need small sizes of hutches, whereas a large dog would need a large pen/open area to roam about. Pet Homes must therefore provide suitable accommodation facilities for customers.
- Identifies competitors – Josie should be able to gain knowledge about her competitors prior to expanding the business, and proceed in the knowledge that Pet Homes can meet the additional demand for accommodation for dogs/rabbits.
- Identifies new product areas – Josie might be able to enhance customer service with innovations such as webcams, social media and apps.
- Identifies new and/or potential customers – Josie needs to plan the marketing activities of Pet Homes to target selected customers at holiday times, increase awareness among new customers, develop the brand and increase market share.

Valid alternative answers accepted.

**Level 4 [14]–[17]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the usefulness of a marketing plan for Pet Homes
- Highly appropriate, clear and logical judgement based on well focused and sound analysis
- An excellent quality of written communication

**Level 3 [10]–[13]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of the usefulness of a marketing plan for Pet Homes
- An appropriate, clear and logical judgement, based on well focused analysis
- A good quality of written communication
- 

**Level 2 [6]–[9]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the usefulness of a marketing plan for Pet Homes
- An appropriate judgement, based on satisfactory analysis
- A satisfactory quality of written communication

**Level 1 [1]–[5]**

A basic response demonstrates:

- Basic knowledge and understanding of the usefulness of a marketing plan for Pet Homes
- Basic judgement, based on limited analysis
- A basic quality of written communication

Answers not worthy of credit [0] marks

[17]

40

**Total**

**80**

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MARKS**

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**2018**

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# **Business Studies**

Assessment Unit A2 1

*assessing*

Strategic Decision Making

**[CODE]**

**SPECIMEN**

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**MARK  
SCHEME**

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**1 (a)** (AO1, AO2)

Define the term 'participatory organisational culture', and explain how it is used within Mack Plc.

**Definition** – [1] available

'Participatory organisational culture' is a type of approach to management in a business in which employees at all levels are encouraged to contribute ideas towards identifying and setting organisational goals, problem solving, and other decisions that may directly affect them.

**Explanation** – [2] available

In relation to Mack Plc, organisational culture is deemed to be of a participatory nature as directors, management, staff and potential customers have an input to the decision making processes of Mack Plc, e.g. team briefings, government input to building contracts.

Valid alternative answers accepted.

[3]

**(b)** (AO1, AO2)

Discuss **two** reasons why organisational culture might be important to the Board of Directors of Mack Plc.

The **two** reasons and relevant discussion points could include:

- Active participation [1]: gives staff a chance to engage in two way communication to express their opinions [1] and be involved in making decisions that affect them (e.g. team briefings) [1].
- Motivation [1]: employees may be motivated by non-monetary factors e.g. sense of duty [1], clear definition of customer needs, innovation (new 'eco-classroom') [1].
- More informed decision making [1]: customers have experience of their requirements, e.g. teaching staff/school management know what it is really like working in school environments [1] they contribute to decision making with suggestions on new working practices, products and innovation [1].
- Enhanced public relations [1]: feedback from stakeholders and a consultative approach can aid improvements [1], enhanced public relations and enhance reputation for Mack Plc [1].

Valid alternative answers accepted.

[6]

The question requires only **two** reasons why organisational culture might be important to the Board of Directors at Mack Plc. Any additional reasons will not attract any marks.

9

**2 (AO1, AO2, AO3)**

Analyse Mack Plc's current strategic position using a SWOT analysis.

- Strengths: participatory organisational culture, contributing to improved performance and business growth, including team working, input from government.
- Weaknesses: dependence on one key supplier, Kings Plc, which necessitated a takeover bid costing £7.5m; this is important to Mack Plc's strategic position.
- Opportunities: launch of a new innovative product line called the 'eco-classroom' in the education sector; this might yield profits in future as an innovative product line and enhance Mack Plc's image.
- Threats: cuts/reductions to public expenditure, limiting scope for expansion and revenue growth; this is important to secure the objective of growth.

Valid alternative answers accepted.

**Level 3 [9]–[12]**

An excellent response demonstrates:

- Well-focused and sound analysis of Mack Plc's current strategic position using a SWOT analysis
- Comprehensive and relevant accurate knowledge and understanding of SWOT, which fully analyses one each of: strengths, weaknesses, opportunities and threats
- Appropriate use of relevant source material to support the analysis
- An excellent quality of written communication

**Level 2 [5]–[8]**

A good response demonstrates:

- Focused analysis of Mack Plc's current strategic position using a SWOT analysis
- Good, accurate knowledge and understanding of SWOT, which appropriately analyses at least one each of: strengths, weaknesses, opportunities and threats
- Mostly appropriate use of relevant source material to support the analysis
- A good quality of written communication

**Level 1 [1]–[4]**

A basic response demonstrates:

- Basic analysis of Mack Plc's current strategic position using a SWOT analysis
- Basic knowledge and understanding of SWOT, which may not analyse all of the elements
- References to source material may not be appropriate
- A basic quality of written communication

3 (a) (AO1, AO2)

Using the data in Table 1, calculate the ROCE for Kings Plc.

$$[2] \text{ for calculation of ROCE} = 0.1\% \quad \frac{\pounds 16,000}{\pounds 16,000,000}$$

[1] for correct method but incorrect answer. [2]

(b) (AO1, AO2)

Using the data in Table 2, calculate the:

(i) Payback

$$[2] \text{ for calculating payback period as } 2 \text{ years} + 215 \text{ days} \\ (\pounds 2.5\text{m} + \pounds 2.5\text{m}) \times (\pounds 2.5\text{m}/\pounds 4.25) \times 365$$

[1] for correct method but incorrect calculation. [2]

(ii) Net Present Value (NPV) assuming a discount factor of 10%

$$[5] \text{ for calculation of NPV} = \pounds 37,500$$

You should show the discounted cash flow for each year.

YEAR	NCF (£)	Discount Factor	Discounted cash flows (£)	Marks Available
0	(7 500 000)	1.00	(7 500 000)	1
1	2 500 000	0.91	2 275 000	1
2	2 500 000	0.83	2 075 000	1
3	4 250 000	0.75	3 187 500	1
		<b>Net Present Value</b>	<b>37 500</b>	<b>1</b>

[5]

(c) (AO1, AO2, AO3, AO4)

Evaluate the usefulness of the Net Present Value (NPV) method of investment appraisal as an aid to decision making in Mack Plc.

- Investment appraisal results look favourable: NPV = £37,500  
Therefore the takeover of Kings Plc would yield £37,500 additional cash flows to Mack Plc once complete. Recommend investment in the project, i.e. Mack Plc should complete the takeover of Kings Plc – an important strategic decision.
- Net Present Value method considers the risk profile of the project in terms of risk, cash flows and timing of cash flows, which is important to facilitate the decision to proceed with the takeover by Mack Plc.

- More robust method of appraising investments, compared to profit based methods, which should lead to more accurate decision making.
- Reliability/accuracy of the cash flow estimates needs to be verified, as this may lead to an incorrect decision being taken by the management team in Mack Plc.
- Method requires assumptions about the cost of capital/discount factor, which assumes the correct rate is being used – an incorrect rate will yield the wrong decision to be taken by Mack Plc directors.
- NPV method provides only a quantitative analysis of the project, which ignores the qualitative issues which may impact the decision making process and eventual outcome.

Valid alternative answers accepted.

### **Level 3 [9]–[12]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the usefulness of NPV in making investment decisions within Mack Plc
- Highly appropriate, clear and logical judgement based on well focused and sound analysis of NPV, making appropriate use of relevant source material
- An excellent quality of written communication

### **Level 2 [5]–[8]**

A good response demonstrates:

- Good and accurate knowledge and understanding of the usefulness of NPV in making investment decisions within Mack Plc
- Appropriate and logical judgement based on focused analysis of NPV, making mostly appropriate use of relevant source material
- A good quality of written communication

### **Level 1 [1]–[4]**

A basic response demonstrates:

- Basic knowledge and understanding of the usefulness of NPV in making investment decisions within Mack Plc
- References to source material may not be appropriate
- Basic or no judgement, based on limited analysis
- A basic quality of written communication

Answers not worthy of credit [0] marks

[12]

21

**4 (AO1, AO2, AO3, AO4)**

One of the Mack Plc's business objectives is growth.

Evaluate the impact of this objective on **four** different stakeholder groups.

**Stakeholder Groups**

- Shareholders: Cost of takeover is £7.5m, yields £37,500 positive cash flows over three years; ROCE is 22% which is favourable; future growth prospects appear favourable; taking a risk with takeover of Kings Plc as innovative new product is currently untested, with no guarantee of success.
- Lenders: Non-current liabilities amount to £7.5m or 25% of capital; this is relatively low and represents a low financial risk to Mack Plc; lenders might be willing to lend funds to Mack Plc in order to fund future growth and/or facilitate a takeover of Kings Plc, which in turn would be beneficial to the lenders.
- Staff: Job security is enhanced with the growth of the company; participative culture in Mack Plc enhances staff working relationships; innovation is encouraged and appears to yield positive results in terms of increased revenues, morale and low staff turnover at 5%; staff might seek to become the more dominant partner and thus result in a distortion of the role of management.
- Customers: Customers require value for money, construction projects which are completed on time, in budget and are innovative; customers require higher standards of performance and quality over time; Mack Plc would need to ensure that it adheres to customer requirements in order to enhance its reputation.
- Pressure groups: Teachers and parent teacher groups may exert pressure on Mack Plc to deliver products which are innovative and beyond the budgets agreed in order to meet their own agendas; Mack Plc has a participatory culture, therefore extensive consultations take place which would address such concerns.
- Local community: Mack Plc has adopted a participatory culture, thus consultations take place with local community representatives in respect of issues related to business activities; this benefits both stakeholder groups as a clear understanding of issues emerges so that future growth can be achieved.

Valid alternative answers accepted.

The question requires an evaluation of the impact of 'growth' on **four** stakeholder groups. Additional stakeholder groups will not attract any marks.

**Level 4 [19]–[24]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the impact of Mack Plc's growth objective on four different stakeholder groups
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis
- Appropriate use of relevant source material, coming to a fully supported judgement
- An excellent quality of written communication

**Level 3 [13]–[18]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of the impact of Mack Plc's growth objective on up to four different stakeholder groups
- Highly appropriate, clear and logical judgement, based on focused analysis
- Mostly appropriate use of relevant source material, coming to a supported judgement
- A good quality of written communication

**Level 2 [7]–[12]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of Mack Plc's growth objective on up to four different stakeholder groups
- A suitable, appropriate judgement of the impact, based on reasonable analysis
- A sometimes appropriate use of source material, coming to a partially supported judgement
- A satisfactory quality of written communication

**Level 1 [1]–[6]**

A basic response demonstrates:

- Basic knowledge and understanding of the impact of Mack Plc's growth objective on up to four different stakeholder groups
- Basic judgement on of the impact, based on limited or no relevant analysis
- References to source material may not be appropriate
- A basic quality of written communication

Answers not worthy of credit [0] marks

[24]

24

5 (AO1, AO2, AO3, AO4)

Evaluate **four** ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making.

The ways could include:

- The management team would use published accounts to judge whether Kings Plc shares are a good investment and are likely to be in the future; providing that they were not out of date.
- The management team would also be interested in examining the profit levels and compare with other similar companies; this is subject to accuracy of data provided and of the financial information within the published accounts.
- The management team may review the published accounts to identify areas of both risk and reward in the business; they can then weigh up the potential risks and rewards of potential business decisions.
- The management team may use the published accounts to ascertain the book values of assets and liabilities; this will help them to consider the options/future decision making of the company going forward.
- The management team would consider the published accounts to determine the value of the business for the acquisition, providing the information included was accurate and there was no 'window dressing'.

Valid alternative answers accepted.

The question requires four ways in which King's Plc's published accounts might be of use to the management team of Mack Plc as an aid to their decision making. Any additional ways will not attract marks.

**Level 4 [19]–[24]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of four ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis
- An excellent quality of written communication

**Level 3 [13]–[18]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of up to four ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making
- An appropriate, logical judgement, based on focused analysis
- A good quality of written communication

**Level 2 [7]–[12]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of up to four ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making
- An appropriate judgement, based on reasonable analysis
- A satisfactory quality of written communication

**Level 1 [1]–[6]**

A basic response demonstrates:

- Basic knowledge and understanding of up to four ways in which the published accounts of Kings Plc might be of use to the management team of Mack Plc as an aid to decision making
- Basic judgement with limited or no relevant analysis
- A basic quality of written communication

Answers not worthy of credit [0] marks

[24]

24

**Total**

**90**

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MARKS**

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**2018**

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# **Business Studies**

Assessment Unit A2 2

*assessing*

The Competitive Business Environment

**[CODE]**

**SPECIMEN**

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**MARK  
SCHEME**

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## 1 (a) (AO1, AO2)

Define the term 'Global Marketing', and explain **one** way in which it enables a company such as Mash Direct Limited to compete more effectively in the global market.

**Definition of Global Marketing**

Marketing activities undertaken by a business to reach international markets and their community. A business engages a process of conceptualising and conveying a final product or service worldwide, in order to try to increase sales revenues, increase market share and meet customer needs.

Any one of:

- Participation in the European/Middle Eastern/American markets – could increase geographical market coverage
- Use of website – this allows the business to gain global exposure
- Product promotion activities – this allows customers to access the business
- Sponsorships – this increases the profile of the business among global customer base
- Providing customer support – this may increase loyalty and/or market share
- Public relations – increases the profile of the business
- Wider product range available – to meet needs of customers in different geographical markets

Valid alternative answers accepted.

Marking: [2] for definition (2 for detailed definition, 1 for brief definition).

[2] for explanation (2 for detailed explanation of **one** way, 1 for brief explanation of **one** way). [4]

## 1 (b) (AO1, AO2)

Explain **two** advantages to a company such as Mash Direct Limited of using E-business as part of their global marketing strategy.

Two advantages of E-Business and an explanation of each could include:

- Available 24/7 [1]: allowing Mash Direct Limited to be continuously exposed to a wide audience at all times [1].
- Global exposure [1]: accessible worldwide providing free publicity for the company [1].
- Economies of scale [1]: the company can gain additional sales and economies of scale from orders placed informally using 'contact us' facilities on their business website [1].
- Corporate image [1]: allows Mash Direct Limited to maintain a high profile corporate image due to use of social media (e.g. Twitter, Pinterest and Facebook) and online customer support [1].

[4]

Valid alternative answers accepted.

The question requires only two advantages. Any additional advantages will not attract additional marks.

**2 (a)** (AO1, AO2)

Define the term 'Corporate Social Responsibility' (CSR), and explain how this can be used to support the marketing of Mash Direct Limited's product range.

**Definition of Corporate Social Responsibility** – [2] available  
Corporate social responsibility is an ongoing commitment by businesses to act in an ethical manner [1], contributing to economic development/improving the quality of life for key stakeholders including staff/local community/or customers [1].

**Explanation** – [2] available

- Lifestyle choices [1]: Products developed to meet convenience food sector – particularly the lunchtime market, where customers may be faced with time pressure to consume food [1]
- Healthy options [1]: Product range available to meet the needs of customers who prefer to consume foods conducive to a healthier lifestyle, e.g. users of gym/leisure facilities [1]
- Ethics [1]: Food safety is important and thus the company acts in an ethical manner to ensure food produce is safe and complies with health/safety legislation [1]

Any two from the above.

Valid alternative answers accepted.

Marking: [2] for definition.  
[2] for explanation on how CSR supports the marketing of Mash Direct Limited's product range. [4]

**(b)** (AO1, AO2, AO3)

Analyse the possible impact of Mash Direct Limited's sustainable activities on its competitiveness.

Sustainable activities – these may impact Mash Direct Limited's competitiveness in the following ways:

- Increased profits: profits can increase through achievement of sustainable cost reductions – an example is recycling of water on company premises
- Increased efficiency: productivity and output can increase through crop rotation and efficient soil management of farmland
- Improved corporate image: recycling waste from production processes provides a sustainable supply of animal feed for alternative markets and improves the corporate image of Mash Direct Limited

Valid alternative answers accepted.

**Level 3 [5]–[6]**

An excellent response demonstrates:

- Well-focused and sound analysis of appropriate ways sustainability activities may impact Mash Direct Limited's competitiveness
- Comprehensive knowledge and understanding of relevant sustainability activities
- Thorough use of relevant source material to analyse the impacts of the activities identified
- An excellent quality of written communication

**Level 2 [3]–[4]**

A good response demonstrates:

- Focused analysis of appropriate ways sustainability activities may impact Mash Direct Limited's competitiveness
- Good knowledge and understanding of relevant sustainability activities
- Good use of relevant source material to analyse the impacts of the activities identified
- A good quality of written communication

**Level 1 [1]–[2]**

A basic response demonstrates:

- Basic analysis of the ways in which sustainability activities may impact Mash Direct Limited's competitiveness
- Basic knowledge and understanding of sustainability activities, which may not always be relevant
- Limited use of relevant source material to analyse the impacts of the activities identified
- A basic quality of written communication

Answer not worthy of credit [0] marks

[6]

10

- 3 (a) (AO2)  
Calculate (to two decimal places), Mash Direct Limited's Gross Profit Margin for 2012 and 2013.  
(AO2)

Gross Profit Margin %

- 2013:  $(\text{£}0.61\text{m}/\text{£}10.66\text{m}) \times 100\% = 5.72\%$  [1]
  - 2012:  $(\text{£}0.47\text{m}/\text{£}9.51\text{m}) \times 100\% = 4.94\%$  [1]
- [2]

- (b) (AO1, AO2, AO3)

The typical Gross Profit Margin for this industry is 3%. Analyse possible reasons for the difference between Mash Direct Limited's Gross Profit Margin and the industry average.

If the candidate calculates the gross profit margin incorrectly in 3(a) then own figure rule must apply as per general marking instructions. Candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations.

**Reasons for differences in profitability - these might include:**

- Increased sales revenues: sales revenues have increased by a total of £1.15m as a result of trading internationally in the Middle East and European Markets which Mash Direct Limited's competitors may not have access to, hence a profit margin reported that is greater than the industry average
- Economies of Scale: increased exposure to international markets implies that greater quantities can be sold, with little increase in production costs, hence costs can be contained/reduced leading to increased profit margins compared to industry average
- Efficient Stock Management: less waste could lead to cost reductions which result in an increased profit margin for Mash Direct Limited compared to the industry average
- Vertical Integration: Mash Direct Limited have access to their own farmlands which will ensure reliability of supply and would reduce fluctuations in the cost of raw materials

Valid alternative answers accepted.

**Level 3 [7]–[9]**

An excellent response demonstrates:

- Well-focused and sound analysis for the reasons for the difference between Mash Direct Limited's Gross Profit Margin and the industry average
- Comprehensive and relevant accurate knowledge and understanding of the reasons for the differences in profitability
- Thorough use of relevant source material to analyse the reasons for the difference
- An excellent quality of written communication

**Level 2 [4]–[6]**

A good response demonstrates:

- Focused analysis of the reasons for the difference between Mash Direct Limited's Gross Profit Margin and the industry average
- Good, accurate knowledge and understanding of the reasons for the differences in profitability
- Good use of relevant source material to analyse the reasons for the difference
- A good quality of written communication

**Level 1 [1]–[3]**

A basic response demonstrates:

- Basic analysis of the reasons for the difference between Mash Direct Limited's Gross Profit Margin and the industry average
- Basic knowledge and understanding of the reasons for the differences in profitability
- Limited use of relevant source material to analyse the reasons for the difference
- A basic quality of written communication

Answer not worthy of credit [0] marks

[9]

11

**4 (AO1, AO2, AO3, AO4)**

Evaluate the possible effects of the government's proposal to reduce the rate of Corporation Tax in Northern Ireland from 20% to 12.5%, on a company such as Mash Direct Limited.

**Advantages:**

- Existing and future profits would increase for a company such as Mash Direct Limited as profits are assessed at a lower tax rate therefore less tax is being paid to the government.
- Potentially increased dividends may be paid to a company such as Mash Direct Limited's shareholders as increased profits pave the way to increase dividend return to its shareholders, and this may attract new shareholder interest in the company.
- More profits may create an opportunity for increased investment in machinery and equipment, which may impact on the ability to produce goods more efficiently.
- R & D with new innovative products which will improve the company's offering to customers and potentially improve the quality of products, thus increasing demand and profits for a company such as Mash Direct Limited

**Disadvantages:**

- A lower tax rate may increase competition as it could attract global competitors to Northern Ireland. This could affect a company such as Mash Direct Limited by reducing their market share. The increased competition may also lead to the possibility of reduced potential for future profits.
- Introducing a lower rate of corporation tax than the rest of the UK may provide an added incentive for leading global companies to locate here, resulting in greater demand for workers in the labour market. It could prove difficult to recruit the right staff for a company such as Mash Direct Limited.
- Higher demand for appropriately skilled staff may mean that the costs of both recruitment and salaries may increase for a company such as Mash Direct Limited.

Valid alternative answers accepted.

**Level 4 [13]–[16]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the possible effects on a company such as Mash Direct Limited of a reduction in Corporation Tax
- Highly appropriate, clear and logical judgement, based on well focused and sound analysis of the effects of the rate change on such a business
- An excellent quality of written communication

**Level 3 [9]–[12]**

A good response demonstrates:

- Sound and accurate knowledge and understanding of the possible effects on a company such as Mash Direct Limited of a reduction in Corporation Tax
- An appropriate and logical judgement, based on well focused analysis on the effects of the rate change on such a business
- A good quality of written communication

**Level 2 [5]–[8]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the possible effects on a company such as Mash Direct Limited of a reduction in Corporation Tax
- A suitable and appropriate judgement, based on reasonable analysis on the effects of the rate change in such a business
- A satisfactory quality of written communication

**Level 1 [1]–[4]**

A basic response demonstrates:

- Basic knowledge and understanding of the possible effects on a company such as Mash Direct Limited of a reduction in Corporation Tax
- Basic judgement, with limited or no relevant analysis which may or may not be supported on the effects of the rate change on such a business
- A basic quality of written communication

Answer not worthy of credit [0] marks

[16]

16

## 5 (a) (AO1, AO2, AO3)

Using the case study calculate and compare the contribution for Proposal 1 and Proposal 2.

	Proposal 1	Proposal 2
<b>Sales Revenue</b>	£585,800	£396,400
<b>Variable Costs</b>	£319,400	£174,650
<b>Contribution</b>	£266,400	£221,750

## Comparison

Proposal 1 would make a contribution of £266,400 and Proposal 2 a contribution of £221,750, which is a difference of £44,650 greater contribution from Proposal 1 compared to Proposal 2.

[1] for correct formula in both proposals.

[1] for each correct answer in both proposals [1+1].

[2] for comparison.

[5]

## (b) (AO1, AO2, AO3, AO4)

Using relevant information from the case study, and your own knowledge and understanding, evaluate each proposal and make a recommendation to the directors of Mash Direct Limited as to whether they should adopt Proposal 1 or Proposal 2.

**Evaluation for Proposal 1 – USA Market:****For:**

- 318 million potential customers, implying a very large untapped market for its products
- Potential sales revenue of £585,800
- Greater contribution to fixed costs of £266,400 which could lead to increased profits
- Innovative new products to new market segments across USA. Mash Direct Limited could charge higher prices
- Increased demand from new markets may lead to increased profits and improved corporate image
- With increased demand Mash Direct Limited could achieve economies of scale
- Increased profits will lead to increased dividends to Mash Direct Limited's shareholders

**Against:**

- The USA is an unknown market with many market segments, nationalities and cultures – more research may be required
- Fluctuating exchange rates for dollar v sterling could cause uncertainty
- Transport and packaging costs to USA may be high which will affect costs and pricing decisions
- Legislation on labelling and product safety may be different in the USA which could affect production and marketing costs
- Import duties in the USA would increase Mash Direct Limited's costs

## Evaluation for Proposal 2 – European Market:

AVAILABLE  
MARKS

### For:

- Potential sales revenue £396,400 and 500 million potential customers
- Contribution to fixed costs is £221,750
- The European market is a better known market to Mash Direct Limited, but there will be many segments and cultures so Mash Direct Limited will need to carry out research
- If Mash Direct Limited can sell to the potential 500 million customers this could increase profits and improve corporate image
- The increased demand could lead to economies of scale, increased profits and dividends to Mash Direct Limited's shareholders
- Free movement of goods around EU states will mean lower export costs

### Against:

- Transport and distribution costs to mainland Europe will add to Mash Direct Limited's costs
- Differences in legislation for product safety and language could affect Mash Direct Limited's production and marketing costs
- The contribution to fixed costs and profits made by Proposal 2 is lower than Proposal 1

Valid alternative answers accepted.

### Level 4 [16]–[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of Proposal 1 and Proposal 2
- Highly appropriate, clear and logical judgement on each proposal based on well focused and sound analysis
- Always appropriate use of relevant source material, supported by own knowledge
- A clear and appropriate recommendation to adopt either Proposal 1 or Proposal 2
- An excellent quality of written communication

### Level 3 [11]–[15]

A good response demonstrates:

- Sound knowledge and understanding of Proposal 1 and Proposal 2
- An appropriate and logical judgement on each proposal based on well focused analysis
- A mostly appropriate use of relevant source material, and own knowledge
- An appropriate recommendation to adopt either Proposal 1 or Proposal 2
- A good quality of written communication

**Level 2 [6]–[10]**

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of Proposal 1 and Proposal 2
- An appropriate judgement on each proposal based on reasonable analysis
- A sometimes appropriate use of relevant source material, and own knowledge
- A partially reasoned recommendation to adopt either Proposal 1 or Proposal 2
- A satisfactory quality of written communication

**Level 1 [1]–[5]**

A basic response demonstrates:

- Basic knowledge and understanding of Proposal 1 and/or Proposal 2
- A basic judgement on each proposal with limited or no relevant analysis
- References to source material may not be appropriate
- A recommendation which may or may not be supported to adopt either Proposal 1 or Proposal 2
- A basic quality of written communication

Answer not worthy of credit [0] marks

[20]

25

**AVAILABLE  
MARKS**

6 (AO1, AO2, AO3, AO4)

Evaluate licensing and joint ventures as methods of entering a new global market for a company such as Mash Direct Limited. [20]

AVAILABLE  
MARKS

**Advantages of licensing:**

- Under this method, a company such as Mash Direct Ltd (the company) may enter into an agreement with another company (the licensor), in another global location.
- This agreement will allow the licensor the right to use agreed manufacturing processes, and/or the branding or trademark, and any relevant technical information from a company such as Mash Direct Limited, in return for a fee or royalty.
- For a company such as Mash Direct Limited it may be a quick way to enter another global market without the expense of sourcing and funding its own location/production premises.
- For the company it is a method that involves less expense, as generally the licensor may take on all or some of the distribution costs.
- For a company such as Mash Direct Limited licensing carries a relatively low investment so they could enter a new market more cost effectively.
- Licensing may carry less risk, and therefore may be attractive to a company such as Mash Direct Limited.
- Information/research can be obtained directly from the licensor, therefore a company such as Mash Direct Limited can benefit from the licensing agreement.
- A company such as Mash Direct Limited may benefit financially from having less investment in research and development as some of this will be agreed with the licensor.

**Disadvantages of licensing:**

- The terms of license agreements may reduce the market opportunities for a company such as Mash Direct Limited.
- Both the company and the licensor have responsibilities to maintain the product quality and promotion of the product. The licensor's activities may have a negative impact on a company such as Mash Direct Limited.
- There is scope for misunderstanding between the licensor and a company such as Mash Direct Limited. This could lead to poor communication, and perhaps some poor decision making, which could have a negative impact on the business
- If the licensor leaks some trade secrets, a company such as Mash Direct Limited may lose its competitive advantage in the market place.
- The licensee may sell the product outside the agreed territory and after the expiry of the licensing agreement, which will decrease the opportunities for a company such as Mash Direct Limited to expand its market further.

**Advantages of joint ventures:**

- A company such as Mash Direct Limited could use a joint venture to either strengthen a long-term relationship with another company in another location or to collaborate on short-term project/s, in another location.
- For a company such as Mash Direct Limited a joint venture can help a business grow faster, it may increase productivity and generate greater profits for the company.
- A joint venture can give a company such as Mash Direct Limited access to new distribution networks or markets at lower cost than setting a new company up in the location.
- A joint venture may provide a company such as Mash Direct Limited with increased manufacturing capacity at the other company's location.
- A company such as Mash Direct Limited could share the risks and costs with its new partner, allowing it to access the new market much more cost effectively.
- There would be no need for a company such as Mash Direct Limited to borrow additional funds or look for additional investors in order for it to grow.
- The partners customer database could be utilised to market a company such as Mash Direct Limited's products, and by doing so would keep costs down of research and marketing.
- In a joint venture both companies could join forces in purchasing research and development, therefore both would benefit from the potential innovations.

**Disadvantages of joint ventures:**

- For a company such as Mash Direct Limited difficulties could arise if the objectives of the venture are not totally clear or communicated to both parties, as this may result in wrong decisions being taken.
- A company such as Mash Direct Limited may have different objectives to the company that they enter into the agreement with and therefore this could lead to disharmony, and delay in progress.
- A company such as Mash Direct Limited may have different levels of expertise to that of the other company which could lead to disagreement about how the project/s are taken forward and by whom.
- The companies may have different cultures and management styles so Mash Direct Limited may find there is poor integration and poor co-operation with their joint venture party.
- A company such as Mash Direct Limited may not provide sufficient leadership and support in the early stages of the partnership and this could result in the project/s not being progressed as they had planned, hence losing time and or money.
- The success of a joint venture depends on thorough research and analysis of the potential partner by a company such as Mash Direct Limited before entering into any agreement, as it could be a costly mistake if the aims and objectives of each are not matched.

Valid alternative answers accepted.

**Level 4 [16]–[20]**

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of both licensing and joint ventures as methods of entering a new global market
- Highly appropriate, clear and logical evaluation, based on well focused and sound analysis
- A fully informed judgement supported by own knowledge
- An excellent quality of written communication

**Level 3 [11]–[15]**

A good response demonstrates:

- Sound knowledge and understanding of both licensing and joint ventures as methods of entering a new global market
- An appropriate logical evaluation, based on focused analysis
- An informed judgement supported by own knowledge
- A good quality of written communication

**Level 2 [6]–[10]**

A satisfactory response demonstrates:

- Some knowledge and understanding of both licensing and joint ventures as methods of entering a new global market. The response may show uneven knowledge of either licensing or joint ventures
- A suitable, appropriate evaluation, based on reasonable analysis
- A partially reasoned judgement supported by own knowledge
- A satisfactory quality of written communication

**Level 1 [1]–[5]**

A basic response demonstrates:

- Limited knowledge and some understanding of, either licensing and/ or joint ventures as methods of entering a new global market
- A basic evaluation with limited or no relevant analysis
- A limited judgement which may or may not be supported
- A basic quality of written communication

Answer not worthy of credit [0] marks

[20]

20

**Total**

**90**

**AVAILABLE  
MARKS**

