

Mark Scheme (Results)

Winter 2010

GCE

GCE Business Studies (6BS04)

Unit 4: Making Business Decisions

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4A: Making Business Decisions

Marking Scheme

Question Number	Question	Mark
1.	What is meant by the term 'stakeholder'?)	
	Answer	Mark
	<p>Knowledge up to 2: A definition of a stakeholder, i.e. Stakeholder: Any person, group or organisation with an interest in, or who may be affected by, the activities of another organisation.</p> <p>Note: 1 mark for partial explanation, but a valid extension or example will gain the second mark.</p>	1-2
2.	What is meant by the term 'corporate culture' (see Evidence I line 1)?	
	Answer	Mark
	<p>Knowledge up to 2: A valid definition of corporate culture e.g. "the way we do things round here" or equivalent demonstrating understanding = 2 marks.</p> <p>Note: 1 mark for partial or vague definition (but a valid example lifts to 2 marks) Any valid extension such as Handy's power, role, task, person or plausible application to Brompton will also gain the 2nd mark.</p>	1-2
3.	Explain how the Boston Matrix can contribute to Brompton's corporate planning.	
	Answer	Mark
	<p>Knowledge up to 2: Knowledge: a sketch of the Boston Matrix; a description would be acceptable (2 Marks)</p> <p>Application up to 2 Brompton identified as a problem child/question mark (1 mark each).</p> <p>Analysis up to 1 Brompton should advertise to convert the product to a rising star (1 mark); In current market Brompton lack a cash cow (1 mark) and need to acquire/ develop one to fund future development (1 mark) (though it could be argued that their niche position within the folding bicycle market removes this need (1 Mark).</p>	<p>1-2</p> <p>1-2</p> <p>1</p> <p>Total (5 marks)</p>

Question Number	Question	
4.	Briefly comment on the suitability of adopting a “power” corporate culture in helping Brompton to succeed in the folding bicycle market.	
	Answer	Mark
	Knowledge up to 2 <ul style="list-style-type: none"> • “Power” corporate culture, i.e. in this case based on the values of Andrew Ritchie. • Knowledge of Corporate Culture 	1-2
	Application 1 mark <ul style="list-style-type: none"> • Ritchie is an engineer by training and a perfectionist. • Employees - need to identify with Ritchie’s near obsessive wish to “be the best”. 	1
	Analysis 1 mark: <ul style="list-style-type: none"> • Culture will serve as a motivator or any similar development. • Could gain more by empowerment of employees 	1
		Total (4 marks)

Question Number	Question	
5.(a)	Using Evidence F, calculate the Gross profit margin for 2006 and 2007.	
	Answer	Mark
	Knowledge up to 2 Correct gross profit margin formula (2 marks). Knowledge of gross profit (1 mark)	1-2
	Application up to 2 Correct calculation of gross profit margin 2006 (1786x100/4894=36.49%) and 2007 (2027x100/5278=38.4%). <i>4 marks for correct answer without calculations (knowledge implied)</i>	1-2 Total (4 marks)

Question Number	Question	
5.(b)	Comment on the results of these calculations.	
	Answer	Mark
	Application 2 marks: Gross profit margin has risen slightly (1 mark); GPM has risen from 36.49% to 38.4%)	1-2
	Analysis 2 marks: This may be due to either increased wholesale prices or control of manufacturing costs. Brompton depend on premium prices to cover above average manufacturing costs	1-2
		Total (4 marks)

Question Number	Question		
6.	Assess the likely impact on Brompton Bicycle Limited of contingency planning for the US \$ falling against the £ Sterling.		
Level	Mark	Descriptor	Possible Content
Level 1	1-2	Candidate shows knowledge of contingency planning and or exchange rate movement.	<ul style="list-style-type: none"> Understanding of contingency planning. Contingency planning could include focusing marketing effort where exchange rates are more favourable.
Level 2	3-4	Answers should be applied to Brompton. Toolkit should be applied to context. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject).	<ul style="list-style-type: none"> Brompton operate overseas so are likely to have a contingency plan The fall in the dollar is known as depreciation Brompton's are made in UK and exported to the US (among other markets)
Level 3	5-6	Candidate analyses the consequences of contingency planning for the US dollar falling for Brompton.	<ul style="list-style-type: none"> The price of Brompton in the US will rise if sterling wholesale price maintained. The input costs for Brompton may also fall if imported materials and components are priced in US \$. This may impact negatively on sales (depending on price elasticity of demand). USA currently only accounts for 5% of production, but there is unfulfilled demand. Brompton operate at the premium end of the bicycle market and product is likely to be relatively price inelastic.
Level 4	7-9	<p><u>Low Level 4: 7-8 marks</u></p> <p>Advantages and disadvantages explained and support some evaluation.</p> <p><u>High Level 4: 9 marks</u></p> <p>Expect to see convincing evaluative points with a conclusion.</p>	<ul style="list-style-type: none"> Alternatively, Brompton may choose to absorb the change in exchange rate, which will reduce the profit margin on US sales. The US market is a relatively minor part of Brompton's current market and will therefore have a relatively minor impact on profitability. With limited resources, there are higher priorities they may need to invest in.

Section B

Question Number	Question
7.(a) QWC i- iii	<p>a) 7(a)* Brompton Bicycle Limited are considering installation of a computer aided machine at a capital cost of £120 000. This would replace four trained workers, though as Brompton are currently expanding production, no redundancies are required. The company earn 7% p.a. on 12 month fixed term money market deposit and are assuming this can be renewed.</p> <p>Using net present value plus one other investment appraisal technique and other evidence, evaluate whether Brompton Bicycle Limited should proceed with this investment. (20)</p>

Level	Mark	Descriptor	Possible Content
Level 1	1-2	<p>Candidate shows knowledge and understanding of investment appraisal.</p> <p>To achieve a mark of 1 - 2 the candidate will have struggled to use business terminology legibly with frequent errors in SPG and / or weak style and structure of writing.</p>	<p>E.g. of the term investment, investment appraisal, NPV and / or alternative investment appraisal techniques such as average rate of return or payback.</p>
Level 2	3-6	<p>Candidate applies information in table to determine the net present value of the computer aided machine.</p> <p>Candidate uses some business terms but the style of writing could be better. There will be some errors in SPG. Legibility of the text could have been better in places.</p>	<p>See solution below.</p> <p>6 marks for accurate calculation of DCF and one other technique.</p> <p>Maximum 5 marks for accurate calculation of DCF.</p> <p>Maximum of 4 marks if no DCF</p>
Level 3	7-14	<p><u>Low level 3: 7 - 8 marks</u> Weak analysis based on inaccurate data (OFR)</p> <p><u>Medium level 3: 9 - 11 marks</u> Analysis based on two techniques with minor errors in data.</p> <p><u>High Level 3: 12 - 14 marks</u> Strong analysis using DCF, one other investment appraisal technique and other evidence.</p> <p><i>The candidate uses business terminology quite well with reasonable to good spelling, punctuation and grammar.</i></p>	<p>Analysis based on other investment appraisal techniques or other factors except DCF - cap at 7 marks maximum</p> <p>Net present value of £33,560 suggests that the investment is attractive.</p> <p>Payback period of 2 ½ years is relatively short and so also supports investment.</p> <p>Profit (£180,000 - £120,000) = £60,000 ARR $\frac{£60,000}{4} = £15,000$ p.a. which is a large proportion of the initial investment (12.5%)</p>

Level 4	15-20	<p><u>Low Level 4: 15 - 16 marks</u> Evaluation is made based on one piece of data (arguments for and against).</p> <p><u>Mid Level 4: 17-18 marks</u> Evaluation is made based on two pieces of data (arguments for and against).</p> <p><u>High Level 4: 19 - 20 marks</u> Evaluation is made based on two pieces of data and additional qualitative evidence (arguments for and against).</p> <p><i>Candidate uses business terminology precisely and effectively with good to excellent spelling, punctuation and grammar</i></p>	<p>All quantitative data suggest the investment should proceed. Stronger responses will also, e.g. appreciate the limitation in the net cash flow or using a 7% discount rate.</p> <p>Uses other evidence e.g. Brompton may be encouraged to go ahead with investment as government initiatives encourage cycle use. Opportunity cost of interest rate changes may affect decision to invest.</p> <p>On balance, Brompton should probably proceed to install the machine, though the return is less than sparkling. The machine should help reduce bottlenecks (Stock/WIP turnover is very slow) and improve productivity. There seems to be unfulfilled potential demand for their product. The best answers will discuss a good range of points such as these and offer a balanced and realistic view. Please note that many other points are possible.</p> <p>Alternatively, weakness in Brompton position or unreliable estimates could support negative conclusion.</p>
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YEAR	7% Discount Factor	Net Cashflow	DCF
0	-	(£120,000)	(£120,000)
1	0.935	£50,000	£46,750
2	0.873	£50,000	£43,650
3	0.816	£40,000	£32,640
4	0.763	£40,000	£30,520
NPV			£33,560

Question Number	Question		
7.(b) QWC i-iii	Evaluate Brompton's decision to base its manufacturing in West London.		
Level	Mark	Descriptor	Possible Content
Level 1	1-2	<p>Candidate shows knowledge of location factors OR manufacturing</p> <p>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text</p>	<ul style="list-style-type: none"> • Transport links, reduced costs of distribution • Proximity to markets • Proximity to labour markets • Links with local area make it difficult to move • Tradition • Manufacturing means to construct a product from components or raw materials
Level 2	3-5	<p>Candidate applies location factors OR manufacturing to Brompton</p> <p>Toolkit use may be limited.</p> <p>The candidate may use some business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</p>	<ul style="list-style-type: none"> • Brompton originates in the UK and still sells a large proportion of its bikes in its home market • Brompton has invested heavily in training its UK workforce (Evidence B). • London is a large, wealthy market consisting of many commuters who use public transport • London is a large market for products and provides opportunities to recruit staff • Brompton gets its name from the part of London from where it originates
Level 3	6 - 15	<p><u>Low level 3 6-8 marks</u> Candidate attempts to analyse the decision based on the Causes/Costs/Consequences of this decision.</p> <p>Contextual element of the analysis may be weak.</p> <p><i>NB - candidates making lists of points are limited to achieving 8 marks.</i></p> <p><u>Mid Level 3 9-11 marks</u> Candidate achieves the analyses of Causes/Costs/Consequences of Brompton's decision.</p> <p><u>High level: 12-15 marks</u> Candidate very convincingly analyses the Causes/Costs/Consequences of</p>	<ul style="list-style-type: none"> • Evidence F points the way that wage costs in the UK are considerably higher in the UK than many other European countries. • Locating in West London gives the company access to the latest trends in design and technology - competencies that cannot be out-sourced easily • Brand status is a key asset and the British heritage is a USP which enables Brompton to command premium prices, particularly in the US and far east. • UK has (comparably) good transport links and West

		<p>Brompton's decision.</p> <p>Candidate will use business terminology well / style of writing is appropriate to the question / reasonable to good SPG</p>	<p>London is near to a major commuter market.</p> <ul style="list-style-type: none"> 65% of sales are to Europe and the Far East (Evidence B) and Taiwan has a low wage structure (Evidence A). Other costs are also likely to be higher in the UK. Butler Adams has already increased outsourcing of non-core manufacturing elements. . Proximity to market is a plus point leaving the UK operation to focus on the European market. Flexible increase in capacity is needed.
Level 4	16 -30	<p><u>Threshold level 4: 16-18 marks</u> The candidate attempts to make Evaluative comments (arguments for and against)</p> <p><u>Low level 4: 19-21 marks</u> The candidate evaluates by looking at a limited number of arguments for and against the decision to locate manufacturing in West London.</p> <p><u>Mid level 4: 22-25 marks</u> The candidate evaluates by looking at a wide range of arguments for and against the decision to locate manufacturing in West London</p> <p><u>High level 4:26-30 marks</u> Balanced, contextualised conclusions based on sound evaluation of the Market, Objectives, Product, Situation that applies to Brompton.</p> <p>Answer is clear, and the candidate makes good use of terminology and toolkit. Candidate uses business terminology fluently with good spelling, punctuation and</p>	<ul style="list-style-type: none"> Many of the processes involved in the Brompton's manufacturing can be out-sourced, with the 'core' remaining in the UK and helping Brompton to keep its niche appeal The Corporate Culture prides itself on not using an assembly line and 'hand-building' the bikes This decision though will inevitably lead to Brompton remaining a niche product - competition on the basis of price will not be possible with the current arrangement The nature of the product (Evidence F lines 32-37) show that there are many features of the Brompton that will not be compromised upon therefore location in the UK is probably best However lack of patent protection is a concern (entry barriers are already low) with only the brand copyrighted and compromising quality could dilute the brand value. There is little evidence of innovation and a partner could bring ideas More able candidates may accept the need to manufacture in the UK, but could question the specific

		grammar.	choice of West London due its inevitable high land/labour costs
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Assessment objectives and Specification coverage

Question No.	Knowledge	Application	Analysis	Evaluation	Total	Specification Coverage
1	2				2	4.3.1b
2	2				2	4.3.1c
3	2	2	1		5	4.3.1c
4	2	1	1		4	4.3.1d
5(a)	2	2			4	4.3.3a
5(b)		2	2		4	4.3.3a
6	2	2	2	3	9	4.3.2f
7 (a)	2	4	8	6	20	4.3.2b
7 (b)	2	3	10	15	30	4.3.2f
Total	16	16	24	24	80	
Total Required	16	16	24	24	80	

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