



Pearson  
Edexcel

# A level Business

Getting Started Guide



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# Getting Started: AS and A level in Business 2015

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# 1. Introduction

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## 1.1 Research and key principles

Our AS and A level Business specifications are designed to support a range of student interests, learning styles and aspirations for progression.

The specifications have been developed in consultation with the teaching community, higher education, learned societies and subject associations. Teachers from a range of schools and colleges — in focus groups, surveys, phone interviews and face-to-face conversations — have provided feedback at each stage and have helped us to shape the specifications.

Academics in UK universities have helped us understand how to build on the strengths of the 2008 A level Business specification and advised on how progression to undergraduate study could be improved.

We have commissioned and conducted our own research projects, including international benchmarking. The specifications are also aligned with our World Class Qualification principles to ensure they are appropriate for a range of students.

Drawing on feedback from all parts of the Business subject community, the 2015 AS and A level specifications have been designed to support students in developing the following skills that have been identified as key for progression in this subject:

- Application of business concepts and theories to a range of real-world contexts.
- A holistic understanding of business.
- Application of appropriate quantitative skills to relevant business contexts.
- Engagement with business through wider reading and an awareness of the current issues impacting on businesses.
- The ability to build and sustain business arguments.

The 2015 AS and A level specifications have been built on these key principles:

- **Clear specifications.** Clear guidance on what students need to learn, providing clarity for planning, teaching and assessments. The changes we have made to the structure of the specifications are explained in Section 2.2, page 5.
- **Co-teachable AS and A level courses.** The AS level is embedded in the A level to allow co-teachability. The relationship between AS level and A level qualifications and considerations for co-teaching the qualifications are detailed in Section 3 (page 11).
- **Progression, not repetition.** The specifications support progression from our GCSE in Business by building on the understanding developed at KS4 and removing unnecessary repetition, while ensuring students new to the subject are appropriately supported, to engage and inspire all learners. Our approach to progression from GCSE is introduced on page 5. Mapping documents and support for progression from GCSE to the 2015 specifications will be available on the Business pages of the Edexcel website.
- **Problem-solving and dynamic approach.** Students will learn that businesses need to make choices and decisions, and be responsive but also far-sighted in their approach to these choices and decisions. The focus is on how businesses respond strategically to the changes they face. An understanding of current issues impacting on businesses, such as the digital economy, supports this. This content is integrated throughout the themes and the course overview can be found on page 6. Ideas and suggestions for teaching approaches are detailed in Section 4 (starting on page 13).

## 1. Introduction

- **Reflect today's global world.** Building on the strengths of the International Business unit in the 2008 course, the new specifications ensure students develop an understanding of current global issues impacting on businesses. The overview for the global theme can be found on page 7 and the changes made to this theme (compared with the 2008 specification) are summarised in the table on page 8.
- **Clear assessments.** Clear and consistent use of command words across assessments and between series. Our approach to the assessments, definitions for the command words and details of how the command words relate to the assessments are explained in Section 5 on page 50.
- **Real business focus.** All of the assessments are based on real businesses, real problems and real opportunities. This helps provide stimulating assessment materials to cover a wide range of business issues for students to engage with. This is further supported by a pre-released context. (See Section 5, page 50.)
- **Clear mark schemes.** The mark schemes provide a consistent understanding of the skills and connections between these skills required for each question type. Clear wording reflects how teachers and examiners describe the qualities of student work, so the expectations are clear for teachers and for markers. Our approach to skills-based mark schemes is explained in Section 5.7 on page 53.
- **Skills for progression.** The pre-released context will encourage students to develop transferable research skills to support study in a wide range of subjects at university and the transition to employment. These skills include numeracy, communication, an understanding of the business environment and commercial awareness. Our approach to skills development is detailed in Section 5 (pre-release), Section 6 (quantitative skills), Section 7 (transferable skills) and Section 8 (Business and the Extended Project Qualification).

### 1.2 Support for delivering the new specification

This *Getting Started* guide provides an overview of the AS and A level specifications to help you get to grips with the content and assessment, and to help you understand what this means for you and your students.

Our package of support to help you plan and implement the new specifications include:

- **Planning.** In addition to the relevant section in this guide, we will be providing a course planner and scheme of work that you can adapt to suit your department. We will provide mapping documents to highlight key differences between the current and 2008 specifications and our GCSE in Business.
- **Teaching and learning.** To support you with delivering the new specifications, we will be providing suggested resource lists, case studies and suggested activities, a student guide and materials for options evening.
- **Understanding the standard.** Exemplar student work with examiner commentaries for the sample assessment materials will be provided.
- **Tracking learner progress.** ResultsPlus provides the most detailed analysis available of your students' exam performance. It can help you identify topics and skills where students could benefit from further learning. Extra assessment materials for A level will also be available to support formative assessment.
- **Support.** Our subject advisor service, led by Colin Leith, and online community will ensure you receive help and guidance from us as well as sharing ideas and information with each other. You can sign up to receive e-newsletters from Colin to keep up-to-date with qualification updates, and product and service news.

## 2. What's changed?

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### 2.1 How have AS and A level changed?

#### Changes to AS and A level qualifications

From September 2015, A level Business will be a linear qualification. This means that all examinations must be sat at the end of the course. More information about the implications of the move to linear assessment is given on page 11.

From September 2015, AS level Business will be a standalone qualification. This means that it cannot be used to contribute towards an A level Business grade. More information about the relationship between AS and A level is given on page 11.

#### Changes to subject criteria

The subject content requirements for AS and A level Business have been revised. All awarding organisations' specifications must meet these criteria. The full subject content document can be found on the Department for Education website, but the boxes below highlight the key requirements.

The following requirements apply to both AS and A level Business specifications:

The knowledge, understanding and skills set out in the **AS** and **A level** specifications must:

- enable students to investigate different types and sizes of organisation in various business sectors and environments, with an awareness of local, national and global contexts, recognising they face various degrees of competition
- enable students to identify business opportunities and problems
- enable students to investigate, analyse and evaluate business opportunities and problems
- enable students to apply numerical skills, including those indicated in the Annex (page 4)
- enable students to make justifiable decisions using both qualitative and quantitative methods, including those indicated in the Annex (page 4)
- enable students to identify and understand how businesses adapt to operate successfully in a dynamic business environment
- promote a holistic understanding of business and enterprise.

All **AS** and **A level** specifications must cover the following core knowledge, understanding and skills:

- External influences: the market, competition.
- Marketing: identifying and anticipating customer needs, marketing mix, product life cycle.
- Accounting and finance: budgeting, cash flow forecasting, break-even analysis, ratio analysis.
- People in organisations: motivation, leadership, organisation design, employer/employee relationships.
- Operations management: quality, productivity, added value.

## 2. What's changed?

In addition, the following requirements also apply to A level Business specifications:

**A level** specifications must also require students to:

- apply basic business concepts to a wider range of contexts
- understand and apply more sophisticated concepts and techniques
- analyse, interpret and evaluate more complex business information
- take a more strategic view of business opportunities, problems and issues.

**A level** specifications must also cover the following core knowledge, understanding and skills:

- business objectives and strategy: different stakeholder and business objectives, strategy and implementation, risk and uncertainty
- external influences: global context, political, social, economic and technological factors, ethical, legal and environmental issues
- business analysis: forecasting, data analysis, market analysis, decision making, measures of performance – financial and non-financial
- change: causes and effects of change, managing change.

The main changes in the revised subject content are:

- the qualification name has been changed to Business to better reflect the nature and coverage of the specifications
- the core content requirements (outlined in the tables above) must constitute 60% of the AS and A level specification content
- there is a greater emphasis on the application of appropriate quantitative skills in a range of business contexts. The assessment of these skills will include at least level 2 mathematical skills as a minimum of 10% of the overall AS or A level marks.

Students are expected to accomplish the following quantitative skills as part of their AS and A level study:

- calculate, use and understand ratios, averages and fractions
- calculate, use and understand percentages and percentage changes
- construct and interpret a range of standard graphical forms
- interpret index numbers
- calculate cost, revenue, profit and break-even
- calculate investment appraisal outcomes and interpret results\*
- interpret values of price and income elasticity of demand
- use and interpret quantitative and non-quantitative information in order to make decisions
- interpret, apply and analyse information in written, graphical and numerical forms

\* this skill is not a requirement in the AS level.



## 2. What's changed?

More information about the application of quantitative skills is given on pages 53–56.

### Changes to Assessment Objectives

The AS and A level Business Assessment Objectives have been revised. The objectives have been made more explicit to exemplify the skills developed through the AS and A level specifications. The Assessment Objectives are the same for both AS and A but the weightings are different.

<b>AO1</b> AS 25–35% A level 20–30%	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
<b>AO2</b> AS 20–30% A level 20–30%	Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues
<b>AO3</b> AS 20–30% A level 20–30%	Analyse issues within business, showing an understanding of the impact on individuals and organisations of external and internal influences
<b>AO4</b> AS 15–25% A level 20–30%	Evaluate qualitative and quantitative evidence to make informed judgements and propose evidence-based solutions to business issues

## 2.2 Changes to the Pearson Edexcel AS and A level Business specifications

The A level specification is structured into four themes. In this structure business students are introduced to core business concepts and develop a broad understanding of how businesses work, before looking at the decision-making tools that help business people move towards a more scientific approach to management. In this thematic approach, progression is continuous as students develop their knowledge and understanding throughout the course.

The specification supports progression from our GCSE through ensuring students new to the subject are supported and the content is appropriately targeted. The new structure avoids repetition from GCSE as it begins with new topic areas and ensures engaging topics that students enjoy and can relate to, such as marketing and branding, are introduced early on in the course. Mapping from our GCSE to the 2015 specifications are available on the Business subject pages.

Students investigate, analyse and evaluate business opportunities and issues, and make supported decisions and recommendations using both qualitative and quantitative methods. The goal is to develop a holistic understanding of business.

In developing the AS and A level 2015 specifications we have retained the strengths of the 2008 specification:

- engaging and updated content
- real-life businesses in all assessments
- global focus
- pre-released context in A level.

## 2. What's changed?

Changes have been made to the specification content and the assessments to ensure the revised subject content and assessment requirements are met (as outlined in Section 2.1), and to bring the specification up-to-date (see page 7). The layout of the new specifications ensures that the required content is clear and comprehensive. Section 4 of this guide gives further examples and guidance for each topic area.

### Specification overview

The charts below provide an overview of the AS and A level specifications, indicating the relationship between the two. (Further guidance on the relationship between AS and A level is provided on page 11.) The A level is structured into four themes with three externally assessed exams:

<p style="text-align: center;"><b>Theme 1</b> <b>Marketing and people</b></p> <p>1.1 Meeting customer needs 1.2 The market 1.3 Marketing mix and strategy 1.4 Managing people 1.5 Entrepreneurs and leaders</p>	<p style="text-align: center;"><b>Theme 2</b> <b>Managing business activities</b></p> <p>2.1 Raising finance 2.2 Financial planning 2.3 Managing finance 2.4 Resource management 2.5 External influences</p>
<p style="text-align: center;"><b>Theme 4</b> <b>Global business</b></p> <p>4.1 Globalisation 4.2 Global markets and business expansion 4.3 Global marketing 4.4 Global industries and companies (multinational corporations)</p>	<p style="text-align: center;"><b>Theme 3</b> <b>Business decisions and strategy</b></p> <p>3.1 Business objectives and strategy 3.2 Business growth 3.3 Decision-making techniques 3.4 Influences on business decisions 3.5 Assessing competitiveness 3.6 Managing change</p>
<p style="text-align: center;"><b>Paper 1</b> <b>Marketing, people and global business</b> Assessing Theme 1 and Theme 4</p>	<p style="text-align: center;"><b>Paper 2</b> <b>Business activities, decisions and strategy</b> Assessing Theme 2 and Theme 3</p>
<p><b>Paper 3</b> <b>Investigating business in a competitive environment</b> Assessing all themes</p>	

The AS level is embedded in the A level: Theme 1 and Theme 2 comprise the same content for both the AS and A level specifications. There are two exams:

<p style="text-align: center;"><b>Theme 1</b> <b>Marketing and people</b></p> <p>1.1 Meeting customer needs 1.2 The market 1.3 Marketing mix and strategy 1.4 Managing people</p>	<p style="text-align: center;"><b>Theme 2</b> <b>Managing business activities</b></p> <p>2.1 Raising finance 2.2 Financial planning 2.3 Managing finance 2.4 Resource management</p>
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## 2. What's changed?

1.5 Entrepreneurs and leaders	2.5 External influences
<b>Paper 1 Marketing and people</b>	<b>Paper 2 Managing business activities</b>

### Constructing a coherent course

Students are introduced to business through Theme 1 and Theme 2, which focus on how businesses work. This enables students to build knowledge and understanding of core business concepts. Theme 3 and Theme 4 build on these themes. Theme 3 and Theme 4 extend breadth and depth of knowledge through focusing on business strategy and decisions, and exploring the global context in which modern businesses operate.

### Changes to specification content

Changes have been made to the specification content, both to ensure the revised subject content requirements are met and to refresh the specifications to bring them more up-to-date in response to our research findings; for example, by incorporating current issues such as the digital economy.

The following content has been included in addition to the core content specified in the DfE subject criteria (outlined on pages 3 and 4). The content outlined in the table below has been included for contextualisation and for developing depth.

Specification content	Rationale for inclusion
The digital economy	The digital economy has been included to ensure the content is relevant and up-to-date. References to the digital economy reflect the dynamic and changing nature of business.
Business choices	Opportunity cost and trade-offs have been included to support the development of analytical skills through enabling students to consider the implications of choice and think logically when considering business strategy.
Entrepreneurship and enterprise	This topic is engaging for students as many have real-life references on which to build and aspire to be entrepreneurs themselves. This topic supports an awareness of a range of business types and sizes.
Raising finance	This content has been included to underpin student understanding of how businesses are funded. It provides an important background and introduction to the finance topics, such as financial statements. This content also builds on the enterprise content introduced in Theme 1.
Global business and global focus	Theme 4 focuses on global business and the global context. This theme demonstrates how business concepts and theories can be applied in different and real-world contexts. The global context is important in developing student understanding that businesses do not operate in isolation, that businesses have global reach, the

## 2. What's changed?

implications of trading globally and how this is becoming increasingly important. Students have the opportunity to apply their business knowledge in any context. The global context also makes the course relevant and current, reflecting the business world students will encounter when they enter employment.

The table below is an overview of the main changes in content from the 2008 specification. More detailed mapping of individual topics from the 2015 specification to the 2008 specification can be found on the Business pages of the Edexcel website.

2015 specification content	Changes from 2008 specification
<p><b>Theme 1</b> <b>Marketing and people</b></p> <p>1.1 Meeting customer needs 1.2 The market 1.3 Marketing mix and strategy 1.4 Managing people 1.5 Entrepreneurs and leaders</p>	<p>The marketing and people functions are introduced in this theme. New content includes dynamic markets and online retailing, income elasticity of demand, consideration of social trends in marketing (such as social media), approaches to staffing, innovation within a business and moving from entrepreneur to leader.</p>
<p><b>Theme 2</b> <b>Managing business activities</b></p> <p>2.1 Raising finance 2.2 Financial planning 2.3 Managing finance 2.4 Resource management 2.5 External influences</p>	<p>The finance and operations functions are introduced in this theme. Ratio analysis to measure profitability and liquidity is included.</p>
<p><b>Theme 3</b> <b>Business decisions and strategy</b></p> <p>3.1 Business objectives and strategy 3.2 Business growth 3.3 Decision-making techniques 3.4 Influences on business decisions 3.5 Assessing competitiveness 3.6 Managing change</p>	<p>Moving from functions to strategy, new content includes reasons for businesses staying small, time-series analysis (moving averages), managing change and scenario planning.</p>
<p><b>Theme 4</b> <b>Global business</b></p> <p>4.1 Globalisation 4.2 Global markets and business expansion 4.3 Global marketing 4.4 Global industries and companies (multinational corporations)</p>	<p>The global context has been made more explicit and includes other developing economies, namely Africa.</p>

**2. What's changed?**

## 2. What's changed?

### Changes to assessment

The assessment structures for AS level and A level Business are outlined below and on page 10. More detail on the assessment for each component is given in Section 5 from page 48.

There are three A level papers, each comprising 100 marks and 2 hours in duration.

<p style="text-align: center;"><b>Paper 1</b> <b>Marketing, people and global businesses</b></p> <p>Total marks: <b>100</b> Weighting: <b>35%</b> Exam time: <b>2hrs</b></p> <p>Questions drawn from Theme 1 and Theme 4 content.</p>	<p><b>Section A:</b> Based on stimulus material. One data response question comprising a number of parts, including one extended open-response question.</p>
<p style="text-align: center;"><b>Paper 2</b> <b>Business activities, decisions and strategy</b></p> <p>Total marks: <b>100</b> Weighting: <b>35%</b> Exam time: <b>2hrs</b></p> <p>Questions drawn from Theme 2 and Theme 3 content.</p>	<p><b>Section B:</b> Based on stimulus material. One data response question comprising a number of parts, including one extended open-response question.</p>
<p style="text-align: center;"><b>Paper 3</b> <b>Investigating business in a competitive environment</b></p> <p>Total marks: <b>100</b> Weighting: <b>30%</b> Exam time: <b>2hrs</b></p> <p>A broad context will be issued in November of the previous year. Questions drawn from all themes.</p>	<p><b>Section A:</b> Based on stimulus material. This section will focus on the broad pre-released context. One data response question comprising a number of parts, including one extended open-response question.</p> <p><b>Section B:</b> Based on stimulus material. This section will focus on a strand within the broad pre-released context. One data response question comprising a number of parts, including one extended open-response question.</p>

### 3. Planning

There are two AS level papers, each comprising 80 marks and 1 hour and 30 minutes in duration.

<p style="text-align: center;"><b>Paper 1</b> <b>Marketing and people</b></p> <p>Total marks: <b>80</b> Weighting: <b>50%</b> Exam time: <b>1hr 30</b></p> <p>Questions in Section A and B drawn from Theme 1 content. Question in Section C drawn from Theme 1 and Theme 2 content.</p>	<p><b>Section A:</b> Based on stimulus material. One data response question comprising a number of parts.</p>
	<p><b>Section B:</b> Based on stimulus material. One data response question comprising a number of parts.</p>
	<p><b>Section C:</b> Based on stimulus material. One extended open-response question, requiring students to make connections across Theme 1 and Theme 2.</p>
<p style="text-align: center;"><b>Paper 2</b> <b>Managing business activities</b></p> <p>Total marks: <b>80</b> Weighting: <b>50%</b> Exam time: <b>1hr 30</b></p> <p>Questions in Section A and B drawn from Theme 2 content. Question in Section C drawn from Theme 2 and Theme 1 content.</p>	<p><b>Section A:</b> Based on stimulus material. One data response question comprising a number of parts.</p>
	<p><b>Section B:</b> Based on stimulus material. One data response question comprising a number of parts.</p>
	<p><b>Section C:</b> Based on stimulus material. One extended open-response question, requiring students to make connections across Theme 1 and Theme 2.</p>

Changes have been made to the approach of the AS level and A level papers to ensure the assessments are clear and consistent, enabling students to understand the skills they are required to demonstrate without overly focusing on exam technique. The changes summarised below are explained in detail in Section 5 from page 48:

- A reduction in the variety of **command words** used, careful definition of the skills that comprise each command word and consistent application of the command words within and across assessments.
- **Skills based mark schemes** that focus on the qualities students are required to demonstrate in their answers rather than the quantity of points within responses. Clarity of the skills comprising each command word reflects how teachers and examiners describe the qualities of student work, so the expectations are clear for teachers and for markers and reduces subjectivity.
- **Short-answer questions** that focus on knowledge, understanding and application. These ensure the integration of assessment objectives within questions so they are not considered in isolation, support the application of knowledge to real business contexts and require students to demonstrate a holistic understanding of business through making connections between their knowledge and these business applications.
- A focus on the skills required for progression to university and employment within the **pre-released context**.

## 3. Planning

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### 3.1 Planning and delivering linear AS and A level courses

Both the AS and the A level qualifications are linear, with assessments taken at the end of the course. There will be no January assessment window.

For AS, therefore, centres can decide whether to teach Theme 1 and Theme 2 in parallel or sequentially, based on their timetabling and staffing situation.

For A level, centres will need to decide whether they are delivering the A level on its own or co-teaching AS and A level students together, as this may impact on the approach to teaching in the first year. See sections 3.2 and 3.3 below for further guidance on this.

With a linear A level, consideration will need to be given to leaving sufficient time for revision in the second year, particularly to revisit topics studied in the first year. The structure of the course supports continuous revision as students develop knowledge and understanding from Theme 1 and Theme 2 to Theme 3 and Theme 4.

### 3.2 Delivery models

One of the first decisions centres will need to make is the approach to offering AS and A level. The benefits of a linear A level course include more flexibility in structuring the course, more time for teaching in the first year, greater student maturity when completing assessments and more opportunity for students to make links between different elements of the course. On the other hand, it means that all students must embark on a two-year course; any student who leaves the course after one year, for whatever reason, will leave with no qualification.

Centres wishing to offer the AS alongside the A level will need to decide whether they can run separate AS and A level classes, or whether AS and A level students will need to be taught in the same class. Co-teaching means that students may be able to delay their decision to take the full A level once they have experience of the subject content; many students are learning Business for the first time at this level. Those who did go on to the full A level would still have to be examined on all the A level content at the end of the second year and their AS grade will not count towards their A level grade.

Centres are advised to check the funding implications of students delaying AS and A level decisions.

Centres co-teaching the AS will follow a thematic approach, delivering Theme 1 and Theme 2 in the first year. The themes could be run in parallel or taught sequentially, depending on what is most appropriate for staffing and timetabling within each centre. Centres offering only the A level may also start with Theme 1 and 2 in the first year, but could decide to structure the course differently and adopt an integrated approach; for example, by bringing global aspects from Theme 4 earlier into the course to teach all of the marketing content together. Suggested different approaches to structuring the course are given in the separate Course Planner documents (on the Business subject pages of the Edexcel website). The chart on page 12 illustrates the different options described above.



### 3. Planning

	<b>Sept 2015</b>	<b>Jan 2016</b>	<b>June 2016</b>	<b>Sept 2016</b>	<b>Jan 2017</b>	<b>June 2017</b>
<b>AS level only</b>	Theme 1	Theme 2	Enter for AS level qualification			
<b>Co-teaching AS and A level</b>	Theme 1	Theme 2	Enter for AS level qualification	Theme 3	Theme 4	Enter for A level qualification
<b>Thematic approach to A level</b>	Theme 1	Theme 2	Mock for Themes 1 and 2	Theme 3	Theme 4	Enter for A level qualification
<b>Integrated approach to A level</b>	Theme 1, 2, 3 and 4 (integrated approach)					Enter for A level qualification

### 3.3 Co-teaching AS and A level

The AS level is embedded in the A level: Theme 1 and Theme 2 is the same content for the AS and A level specifications. This means that Theme 1 and Theme 2 can be co-taught for AS and A level.

The AS and A level assessments are differentiated. Content in Theme 1 and Theme 2 may be assessed at both AS and A level, but the style of questions may be differentiated; for example, students may be asked to define a concept from Theme 1 in the AS level assessments but may be asked to explain the impact of this concept in the A level assessments. Students may be required to perform a calculation at AS level but may be asked to complete an additional step (such as interpret the result of this calculation) at A level.

### 3.4 Suggested resources

To support in the teaching and learning of the new specifications, we will provide a comprehensive suggested resources list to capture a range of sources you may find useful. The list will be regularly updated and can be viewed on the Business pages of the Edexcel website.

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**This section provides ideas and suggestions for teaching approaches and is not intended to be prescriptive. The specification should be referred to as the authoritative source of information.**

## Theme 1: Marketing and people

This section provides ideas and suggestions for teaching approaches for Theme 1 and is not intended to be prescriptive. The specification should be referred to as the authoritative source of information.

### 1.1 Meeting customer needs

Markets are made up of buyers and sellers. Successful businesses will be part of a market that is different in size and character, and affected by change. Within markets, customers have needs and wants. Needs like water are unavoidable. Wants are different in the sense that the consumer will have some choice about them. So a successful product or service and therefore business will most likely benefit from effective market research to enable the business to provide consumers with the choices that meet their needs and wants. Furthermore, a successful business will position itself in a market in such a way as to ensure effective sales in what may be a very competitive environment.

#### 1.1.1 The market

- a The difference between mass and niche markets should be considered, and students should be able to give examples, such as general sportswear shops in contrast to fishing tackle shops; what being in a different type of market could mean in terms of market size and market share; and how brands can influence the position of a business within its market.
- b The advantages and disadvantages of online retailing to both consumers and businesses should be explored. Markets that are subject to change — because of changes in consumer tastes, such as confectionery and electrical products, or changes in technology — could be compared with fairly static product markets, such as for staple food products like eggs and milk. The growth of online retailing, with the increased significance of companies like Amazon, iTunes and ASOS, has led to dramatic changes in the market. Students could explore how companies like HMV and Waterstones have responded to these changes.
- c Competition occurs when two or more businesses act independently to supply goods and services to the same group of consumers. Competition can be direct or indirect. Direct competition is when businesses produce similar products that appeal to the same group of consumers. Indirect competition occurs when different businesses make or sell products that are not in direct competition but compete for the same consumer expenditure; for example, a shop selling DVDs might be competing with the local cinema.

Competition from other businesses will typically affect decision making in terms of the nature of ownership, the nature of the product/service offered and product range, pricing policies and marketing methods. Students could consider how an independent grocer may respond to the arrival of a local branch of a supermarket chain such as Tesco Metro, or how an independent hairdresser might respond to the promotional offers of a franchise hairdresser such as Toni & Guy.

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- d Risk is something that can be planned for – probabilities of outcomes are known or at least understood or considered. In this way, risk taking is a conscious decision. Uncertainty in business is caused by unexpected often external factors outside of the business's control, even though these factors can sometimes be predictable. For example, changes in the environment such as the Tsunami in Japan in March 2011 are sources of uncertainty. Another example is the unexpected changes in UK government policy to enable greater devolution of power in the lead up to the Scottish Referendum in September 2014.

### 1.1.2 Market research

- a Product orientation is when a business prioritises a product's design quality or performance rather than meeting customer preferences to guide production and marketing decisions. Apple iPhones, Gillette's disposable razor blades and the Sony Walkman are useful examples of product orientation. The Audi car company and 'Chosen by You' range of ASDA groceries are useful examples of market-orientated products.
- b Primary market research data refers to obtaining data first hand by the business to match the specific needs of the business. Examples include surveys, observations, interviews, test marketing and focus groups/consumer panels. Secondary sources include market reports (such as MINTEL), government data (such as NSO), internet sources and trade publications like *The Grocer*.  
Quantitative data is numerical and can be analysed statistically. Effective market research will link the quantitative with qualitative findings to help build a picture of likely customer preferences and behaviour, enabling a business to identify and anticipate customer needs and wants. Effective market research will: help to reduce risk; understand consumer behaviour and quantify potential consumer demand; understand how much consumers are prepared to pay; identify competitors and how they operate; and the key features of the business environment (SLEPT factors).
- c The advantages and disadvantages of primary research based on cost and accuracy should be explored to determine which might be best, given the size of the business, the market and the business context. Students should explore sample and representation and sampling size but not sampling techniques. Students should also consider how bias occurs; for example, interviewer bias, bias questions or respondent bias.
- d Students should consider how ICT can be used to support market research and the advantages and limitations to the business of websites, social networking, such as Facebook and Twitter, and the nature of business databases, such as Experian.com.
- e Market segmentation is the division of a market into groups, each of which has distinctive customer preferences. Common groupings include age, gender, income, hobbies/interests, location, ethnic origin/culture, occupation and lifestyle. Sport England is a useful source to show market segmentation types.

### 1.1.3 Market positioning

- a Market mapping refers to evaluating business ideas and products/services by setting out the features of a market or product on a diagram. Each axis represents two polar features; for example: high quality versus lower quality; mass versus niche market; modern versus traditional; functional versus aesthetic. Market mapping can be used to identify a gap in the market or to reposition a product. Students should consider the value of market mapping to start-ups and existing businesses launching a new product/service. Examples of different businesses, such as Burberry, could be used.

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- b Students should be aware of ways in which companies gain an advantage over their competitors in a market, such as through price, adding value, innovation, reliability, quality, reputation/image, advertising/marketing and branding, convenience and customer service. Examples of different businesses, such as Dyson, could be used.
- c Product differentiation can be used as a route to providing a competitive advantage and refers to how a business might distinguish its product/service from competitors given its distinctive features or through marketing in a different way to emphasise a unique selling point (USP). For example, Green & Black's chocolate is made with both Fair Trade cocoa and sugar and other ingredients.
- d Added value is the difference between the price that is charged and the total cost of the inputs required to create the product/service. It might be achieved through improving the product/service itself or improving the way consumers perceive the product/service.

### 1.2 The market

This section focuses on the interaction between buyers (consumers) and sellers (producers) and explores the factors that affect demand and supply, determining price levels and sales. The sensitivity of demand to price changes and changes in income provide opportunities for demonstrating quantitative skills.

#### 1.2.1 Demand

- a The effective demand (desire backed by readiness to pay at a particular price) for products and services is determined by more than price, but also a range of other factors: the nature, availability and price of competitors' products and alternative brands; prices of complementary products; the level of, and any changes to, consumer income; trends in consumer fashion, tastes and preferences; advertising and branding to inform, influence or encourage demand and enable repeat purchases (consumer loyalty); population structure; external shocks, such as threat of terrorism, war, disease and health scares; the time of year and holiday periods, the weather and climate.

#### 1.2.2 Supply

- a Supply refers to the amount that producers are able to provide at a given price. Supply is determined by price as this incentivises businesses to supply more in anticipation of higher profits. There are many significant factors leading to a change in supply, such as: the costs of production, which may push prices up, and reduce potential sales and profits so a business may simply reduce output; the introduction of new technology may mean costs and prices may fall; indirect taxes such as a rise in VAT may increase prices and therefore reduce supply; government subsidies, by enabling costs of production to fall, should lead to a rise in supply; external shocks, such as poor weather conditions, typhoons, drought and war, tend to reduce crop yields or the availability of products such as oil or commodities, which can lead to reductions in supply and therefore lead to an increase in prices.

#### 1.2.3 Markets

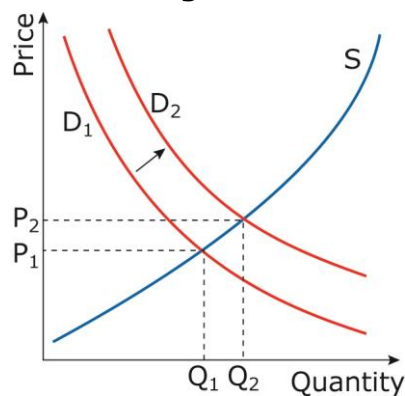
- a The interaction between buyers and sellers should provide an equilibrium price in a market where demand and supply are equal (market clearing price). Where supply exceeds demand (surplus) this is often due to too high a price; where demand exceeds supply (shortage) this is because of low prices.

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- b Students are required to draw demand and supply (market) diagrams to demonstrate the interaction between supply and demand to give an equilibrium price and level of sales/output and be able to demonstrate:
- a rise in demand — shift of the demand curve to the right — which leaves a shortage at current price, so that price will rise and the equilibrium quantity will increase
  - a fall in demand — shift of the demand curve to the left — which leaves a surplus at current price, so that price will fall and the equilibrium quantity will decrease
  - a rise in supply — shift of the supply curve to the right — which leaves a surplus at current price, so that price will fall and the equilibrium quantity will increase
  - a fall in supply — shift of the supply curve to the left — which leaves a shortage at current price, so that price will rise and the equilibrium quantity will decrease.

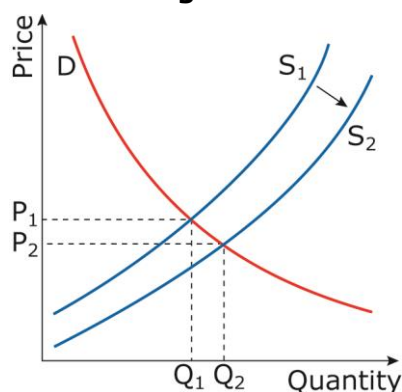
These changes will be linked to non-price factors considered within demand and supply. It is important for students to understand that a change in the price of the good leads to a movement along the demand or supply curve, not a shift in the demand or supply curve.

**Diagram 1**



**Diagram 1** shows a positive shift in demand which causes both prices and quantity bought and sold to rise. Revenue expands from  $P_1 Q_1$  to  $P_2 Q_2$ .

**Diagram 2**



**Diagram 2** shows a positive shift in supply which causes prices to fall from  $P_1$  to  $P_2$  and quantity bought and sold to rise from  $Q_1$  to  $Q_2$ . Revenue changes from  $P_1 Q_1$  to  $P_2 Q_2$ .

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### 1.2.4 Price elasticity of demand

- a Students are required to calculate price elasticity of demand:
- $$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$
- b Price elasticity of demand (PED) measures the responsiveness of demand to a change in price. A steep demand curve indicates a product with price inelastic demand, that is, demand for the product is not responsive to a change in price. A shallow demand curve shows a product that has price elastic demand, that is, demand is responsive to a change in price. Products with price inelastic demand tend to have few substitutes, are necessities, and/or can be addictive; for example, petrol and cigarettes. PED is always a negative number. A number which is between 0 and 1, ie a decimal, means demand is price inelastic. A number between 1 and  $\infty$  means demand is price elastic.
- c Factors that influence PED include the availability of substitutes, the frequency of purchase, the relative price/expense of a product, whether the product is a luxury or necessity and time.
- d PED is an important tool in determining pricing strategy: lowering pricing policies (competitive pricing) are more likely where PED is elastic; setting a high price (skimming) is more likely where PED is inelastic.
- e If PED is inelastic then a rise in price increases total revenue and a fall in price reduces total revenue; if PED is elastic then a rise in price reduces total revenue and a fall in price increases total revenue.

### 1.2.5 Income elasticity of demand

- a Students are required to calculate income elasticity of demand:
- $$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$$
- b Income elasticity of demand (YED) measures the responsiveness of demand to a change in income. A positive number means the product is normal; a negative number means the product is inferior.
- c Factors influencing YED include whether the product is a luxury, necessity or inferior good, and expectations of changes in income, such as loss of job, promotion, recession or economic growth.
- d YED is an important tool in telling a business what their products/services should be in order to increase sales: if a business such as Poundland specialises in inferior goods with negative YED, then sales can be high during periods when incomes are falling (recession). However, given a long-term trend for incomes to rise, this is not so good for producers of inferior goods. In this case, producers/sellers of inferior goods may diversify by increasing their range of products to include some with growing markets, such as ASDA providing the premium price and quality 'Extra Special' range of foods.

## 1.3 Marketing mix and strategy

In this topic, the appropriate nature of the marketing mix (the 4Ps – product, promotion, price and place) for new or existing products or services should be explored. Students should also consider how social trends may affect the marketing mix; the Boston Matrix, the product life cycle and its related sales extension strategies, with reference to product and promotional methods; and marketing strategies that relate to niche, mass, business to business (B2B) or

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business to consumer (B2C) marketing, and the benefits and limitations of these strategies.

### 1.3.1 Product/service design

- a Students could consider examples of standard or bespoke product or service designs that meet identified market needs, such as the Dyson bagless vacuum or a full wedding package, respectively.
- b Examples of how different businesses adapt their design mix to reflect social trends should be explored here; for example, the efficiencies that can be achieved from changing the type of materials and technology used in making products. Toyota is replacing robots with skilled humans to ensure fewer defects, better quality and less waste. Muddy Boots Foods is ensuring traceability for its range of beef burgers by using known suppliers of beef and other ingredients. Starbucks is an example of a global brand that also makes use of ethical sourcing.

### 1.3.2 Branding and promotion

- a Types of promotion include personal selling, direct marketing, advertising, public relations, sponsorship, sales promotions (such as buy one get one free, price discounts, money-off coupons, samples/giveaways, special events and point of sale) and digital communications (online advertising, mobile communications, advergames, social media, consumer-generated content and viral strategies). Students should explore the advantages and disadvantages of each type to businesses.
- b Types of branding include manufacturer/corporate branding such as Nestlé, product branding such as KitKat and own brand product (usually supermarket) such as ASDA chocolate. Students should consider the advantages and disadvantages of each type of branding to the producer and consumer. Students should also explore rebranding – a marketing strategy in which a new name, term, symbol, design or combination is created for an established brand with the intention of developing a new, differentiated identity in the minds of consumers, investors, and/or competitors.
- c Branding is a way to add value, therefore enabling higher prices to be charged, which can reduce PED to make price elasticity of demand less elastic or even inelastic; for example, McVitie's biscuits such as Hobnobs. Students could consider brandnames here, such as Hoover, Pritt Stick, Sellotape, Tarmac and Biro.
- d Brands are strengthened through unique selling points (USPs) and product differentiation; for example, Häagen-Dazs ice cream using real dairy milk and cream, and a range of premium ingredients and flavours such as Strawberry Cheesecake or Baileys. Brands such as premium car companies like BMW can be built through advertising on national TV. Sponsorship can also be used; for example, the sponsorship of the FA Cup by Budweiser at £9m-a-year between 2010 and 2014. Students should also consider how social media, such as links and endorsements on Facebook, is used to build brands.
- e Viral marketing includes video clips, interactive Flash games, advergames, ebooks, brandable software, images, text messages, email messages and web pages. Social media, such as Facebook, shows the sharing or exchange of information and ideas in virtual communities and networks. Emotional branding is the practice of building brands that appeal directly to a consumer's emotional state, needs and aspirations; for example, with clothing, alcohol, confectionery, cars and toiletries.

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### 1.3.3 Pricing strategies

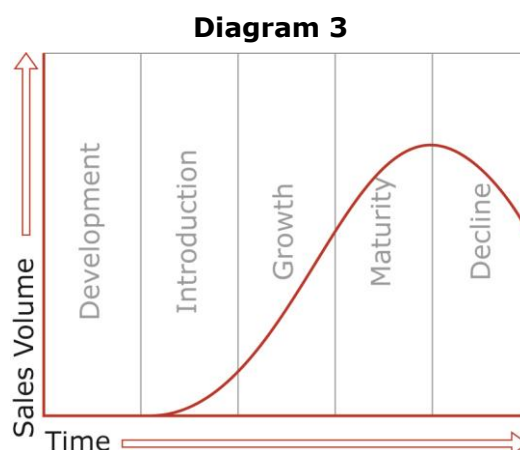
- a (a and b) Students should know, understand and be able to apply/justify the most appropriate pricing strategy for a good or service. For example, in launching a new product with a strong brand identity, it may be appropriate to use a price skimming strategy in order to recover research and development costs; for example, Sony PlayStation 4 or the Apple iPhone 5c and 5s.
- c Online sales by companies such as Tesco and Waitrose for ordering groceries and price comparison sites for services such as car insurance have created a climate of competitive pricing.

### 1.3.4 Distribution

- a Students should be aware of the different types of distribution channel that exist:
  - Four stage – manufacturer/producer to wholesaler to retailer, then consumer. Examples include groceries and confectionery.
  - Three stage – manufacturer/producer to retailer, then consumer. Examples include electrical goods and cars.
  - Two stage (direct marketing, no intermediary levels) – manufacturer/producer to consumer. Examples include factory outlets and holiday companies that do not use travel agents.
- b The choice of distribution channel used will depend on the nature of the product, the market, and the nature and size of the business.

### 1.3.5 Marketing strategy

- a Students should explore the stages of the product life cycle – from development, to introduction, growth, maturity/saturation and decline – as well as the implications for cash flow and marketing of the product/service at each stage.



- b This section covers the nature and purpose of product extension strategies such as product development/modifications, for example the Apple iPhone 5 to the iPhone 5s or 5c; and how promotional methods can be used to postpone the decline of sales, such as the Kellogg's rebranding and re-launch of its Nutri-Grain bar.
- c Students should explore the Boston Matrix, be able to identify each category – cash cow, problem child/question mark, star and dog – and understand the implications for cash flow and marketing of the product/service in each category; for example, the rebranding of a 'dog' product or occasional discounting for cash cows.



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- d Marketing strategies vary depending on the type of market. Sellers in mass markets are more likely to make use of expensive national television advertising given affordability and lower average marketing costs; sellers in niche markets are more likely to focus on effective customer service and other ways to improve customer loyalty, such as understanding customers, introducing a loyalty scheme which offers discounts or targets repeat purchases and are proactive. An awareness of business to business (B2B) and business to consumer (B2C) marketing is required.
- e Students should have an awareness of customer loyalty methods, such as effective customer service, loyalty cards and saver schemes.

### 1.4 Managing people

In this section the focus is on human resource issues, with consideration of how employees can be effectively recruited, deployed, developed and trained, motivated, managed and led.

#### 1.4.1 Approaches to staffing

- a Employees have skills and competencies that businesses should value. Staff can be considered as an asset since they contribute to the value of output, whether this is through providing added value to a product by supporting the manufacturing process or through effective customer service. Employees are more likely to be productive if the business invests in them. Employees are also a cost to businesses in terms of recruitment, training, remuneration, welfare and even severance. Students should consider the distinction between wages and salaries, and the implications of the national minimum wage for a business.
- b Flexible working can mean workers being prepared to take on a range of different tasks within the business or production process as many employees will be multi-skilled. Employees could accept a range of employment patterns, including full-time and part-time or zero hours contracts, temporary as well as permanent jobs, or working flexitime or shift work. Businesses may also agree for employees to work from home. Students should consider the advantages and disadvantages of flexible working to employers and employees.
- c Dismissal (referred to informally as firing or sacking) is the termination of employment by an employer against the will of the employee. Employees are made redundant when a business needs to reduce the size of its workforce or even close. Redundancy can be voluntary.
- d Individual approaches to employer/employee relationships refer to when a single worker negotiates their working conditions and pay with management. Collective bargaining refers to the negotiation between employees and workforce representatives; for example, this could be through a trade union such as UNISON. Trade unions act to protect and improve the economic and working conditions for their members.

#### 1.4.2 Recruitment, selection and training

- a The recruitment process includes the application, interview and other selection procedures, such as assessment days and in-tray exercises. Students should consider whether businesses should recruit for positive attitude and/or for skills, and the distinction between job specification and job description.
- b Recruitment costs businesses money; for example, advertising, expenses, agency fees and staff appointing. Students should explore the significance of labour turnover rates to a business's recruitment and training costs, and the effectiveness of training.

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- c Induction is the familiarisation with the company and its background, policies, health and safety procedures. Students should also understand what is meant by on-the-job and off-the-job training, and the benefits and drawbacks of each approach to a business.

### 1.4.3 Organisational design

- a (a to c) Students should consider how a business might organise the number of staff they have recruited in order to implement business ideas and achieve objectives, and how such a structure may affect the management and effectiveness of operations and communications.

### 1.4.4 Motivation in theory and practice

- a Motivated employees are often more productive, reliable and loyal, and labour turnover rates should be considered with staff motivation.
- b Students should explore the significance of motivation theories to help explain why different businesses have different staff benefits and how businesses meet the range of needs, such as 'well done boards' and appraisals for Maslow's esteem needs. Additional examples can be used to explore a variety of motivational theories and different perspectives.
- c (c and d) The effectiveness and significance of financial and non-financial incentives to improve staff performance can vary between workers and different types of job and business. This should be explored alongside motivation theories. Students should also consider the processes and techniques of how managers can get the best out of their staff, often to improve productivity or motivate. This should again be linked to motivation theories.

### 1.4.5 Leadership

- a Students should explore the distinction between management and leadership. Leadership is about having a vision, sharing that vision with others and providing direction. Management is the day-to-day organisation of the business, including staffing.
- b Students should explore types of leadership style and how each might be more appropriate according to circumstances, nature and size of the business.

## 1.5 Entrepreneurs and leaders

This topic focuses on how people set up and succeed in operating their own business and the constraints they might face in doing so. Students will also consider the people skills and personal qualities that entrepreneurs will most likely need to succeed; what drives people to set up their own business; business objectives; and the various forms of business ownership and the choices which typically face owners of a business.

### 1.5.1 Role of an entrepreneur

- a Being aware of the role of an entrepreneur is fundamental and students should be familiar with how people set up and create their own businesses.
- b Students should also explore what it takes to run, expand and develop a business.
- c Students should consider the entrepreneurial qualities employers in larger organisations might demonstrate; for example, creative, imaginative and innovative employees, self-confident sales managers and bonuses to staff who provide innovative ideas.

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- d Barriers to entrepreneurship include: entrepreneurial capacity, access to finance, lack of training/know how and fear of failure/lack of confidence.
- e Risk and uncertainty was introduced in 1.1.1d. Risk is something an entrepreneur can essentially plan for. Probabilities of outcomes are known or at least understood or considered. Risk taking is a conscious decision and, typically, the greater the risk the greater the reward in business. For example, if an entrepreneur decides to develop a niche product/service business without any form of market research or test marketing (product orientation) then this would be considered more risky yet could be more profitable as a result as competition is less likely. The classic example of risk, of course, is when someone initially decides to set up a business but cannot be sure they will earn as much income for themselves as a sole trader or partner than they may have done from regular employment. For example, an experienced teacher may decide to retire early from his or her job at a school to risk his/her regular income from a salary to become an education consultant in the hope of receiving a similar or greater income from fees. Another example when in employment is that taking a salaried job guarantees a fixed, regular income whereas commissioned based work involves risking that known regular income, since such remuneration depends on output or hours worked, for greater reward.

Uncertainty in business is caused by unexpected, often external, factors outside of the entrepreneur's control even though they are sometimes predictable. Changes in the environment are sources of uncertainty – such as the Tsunami in Japan in March 2011 – as are economic factors. For example, commodity price shocks, changes in interest or exchange rates, health scares, the arrival of competitors, political factors, and changes in local or national legislation. Unlike risk, uncertainty is not objective and does not assume complete knowledge of alternatives. Recent examples include the horse meat burger scandal in January 2013 or sudden changes in UK government policy to enable greater devolution of power in the week before the Scottish Referendum in September 2014. Students could consider a wide range of examples here; for example, how did the historically relatively poor performance of Manchester United affect fast food business profits or merchandise profits in the 2013-2014 football season?

### 1.5.2 Entrepreneurial motives and characteristics

- a Entrepreneurial characteristics include: creativity, hard working, resilience, initiative, self-confidence and risk taking. Skills might include: communication, team working, problem-solving, organisation, numeracy and information technology.
- b Reasons why people set up businesses include: independence, work-life balance, flexibility, more income, ethical reasons, social purpose and challenge.

### 1.5.3 Business objectives

- a (a and b) Profit maximisation is generally the aim of most businesses in order to provide the capital needed for expansion and growth – or even survival – to enable the replacement of machinery or equipment which has been subject to depreciation. In the short term, survival through effective cash flow management is more important than gaining an income or seeking profit maximisation.
- c In order to support profit maximisation, given that total revenue minus total cost equals profits, it is often necessary to support this aim with goals such as sales maximisation/an increase market share; cost efficiencies to ensure costs are at their lowest; and employee welfare and customer satisfaction to ensure that production and sales are at their most effective.

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### 1.5.4 Forms of business

- a Businesses that start out as independent sole traders often expand and develop into other business forms. This transformation is determined by the business owner, the product, the nature and size of the market, and the level of profitability.
- b Students should also be familiar with the growing trend in the setting up lifestyle businesses as people demand flexibility and a work–life balance.
- c Students should explore growth to PLC and stock market flotation in order to secure more finance, share risks and extend decision making.

### 1.5.5 Business choices

- a Opportunity cost is the value of the next best alternative foregone.
- b A trade-off occurs when two things cannot be fully achieved; having more of one thing may mean having less of another. These concepts could be studied with respect to business decisions regarding the choice of, for example: product, market research, business ownership, promotional methods, pricing strategy and quality.

### 1.5.6 Moving from entrepreneur to leader

- a Students should consider the difficulties in moving from an entrepreneur to a leader. These might include the need to delegate, trust and verify, learning to listen, have an open mind, be less reactive and develop emotional intelligence.

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### Theme 2: Managing business activities

This section provides ideas and suggestions for teaching approaches for Theme 2 and is not intended to be prescriptive. The specification should be referred to as the authoritative source of information.

#### 2.1 Raising finance

Students are expected to understand the distinction between internal and external sources of finance and be able to ascertain which sources of finance are suitable for different situations and different types of business organisation. For example, a sole trader would not be able to access share capital because of the legal status of the organisation. Equally, a start-up business would not be able to sell assets or use retained profit, since the business has only just come into existence. Students should be able to assess which source(s) of finance are most applicable to any given situation and explain the reasons behind their selection. More often than not there will be a range or blend of sources of finance that the student could choose; for example, purchasing raw materials could be financed by trade credit or an overdraft, but is unlikely to be funded via a bank loan. Students should be able to articulate advantages and disadvantages of various methods and sources of finance.

##### 2.1.1 Internal finance

- a Personal savings would be an appropriate source of finance for a sole trader or partnership. The amount of finance that can be raised from this method is dependent on the personal savings of the owner.
- b Retained profit would be available to all types of business so long as the business is profitable and has not recently started up. More often than not retained profit is insufficient on its own to allow a business to expand.
- c Asset sales can be used by all businesses, so long as they are not a start-up business (since the business will have no assets). Students may question whether a business which is efficiently run will have any surplus assets to sell and whether asset sales will generate sufficient finance for the business to pursue its objectives.

##### 2.1.2 External finance

Students should be able to distinguish between sources of finance and methods of finance. For example, a business angel may provide venture capital for a business or crowd funding could also be a potential source of venture capital. Students should be able to understand the advantages and disadvantages of various sources and methods of finance.

- a Students should be able to identify possible sources of finance for a business depending on a range of scenarios and be able to explain the reasons behind the source or sources of finance which they have chosen.
- b Students also need to be able to select methods of finance that are appropriate to a given situation and business organisation. For example, a company would not use share capital to fund the short-term purchase of raw materials.

##### 2.1.3 Liability

- a Students are expected to have an understanding of unlimited and limited liability and be able to recognise which types of business organisation limited and unlimited liability applies to. Limited liability significantly reduces the risk

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faced by the shareholders (owners) which, in turn, will allow the business to raise more finance.

- b Students should be able to recognise which sources of finance are applicable to companies and sole trader/partnerships. Students are not expected to know what a limited liability partnership (LLP) is. This section of the specification could be taught alongside internal and external finance (2.1.1 and 2.1.2).

### 2.1.4 Planning

- a Students are not required to know the format of a business plan and will not be asked to produce a business plan. Students will need to know what a business plan is, and its role in reducing risk to bank or potential investors, allowing the business access to a wider range of methods/sources of finance. This could result in a lower interest rate (if a loan was being applied for) or a reduced percentage of total shares in issue being given to a venture capitalist.
- b Students will not be asked to produce a graph of cash flow over time, but could be asked to complete a part completed cash flow table and calculate any missing figures. Alternatively a student may be given a diagram or table of figures and they will need to interpret the cash flow implications to the business.
- c Students should be able to recognise that, in dynamic markets, cash flow forecasts may be of limited use. Also, the longer the period of time the cash flow has been calculated for, the less likely it is to be accurate.

## 2.2 Financial planning

This topic is linked to 2.1 in that financial planning is one method that helps to reduce the risk of business failure. In turn, this helps to increase the range of methods/sources of finance that the business can gain access to and helps to minimise the disadvantages of accessing those sources of finance, (for example, lower interest rates on a bank loan).

### 2.2.1 Sales forecasting

Calculations are not required in 2.2.1; quantitative sales forecasting is covered in 3.3.1.

- a The importance of sales forecasts should be linked to cash flow in 2.1.4. Sales forecasting will allow the business to decide whether it needs to increase productive capacity and employ more workers in the future. Alternatively sales forecasting could be used to ascertain when a business should start promotional activity.
- b Students need to know how consumer trends, economic variables and actions of competitors could cause sales forecasts to increase or decrease. Students could be given a business scenario and then have to decide which factors could cause sales to increase or decrease and the reasons why. With the UK economy in the recovery phase of the economic cycle, businesses such as Poundland or Aldi could be used to illustrate how changes in economic variables could cause sales to fall.
- c Although the risk of producing inaccurate forecasts can be reduced, forecasts are not guaranteed and businesses operating in dynamic markets will find it significantly more difficult to forecast accurately beyond a very short period of time in the future.

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### 2.2.2 Sales, revenue and costs

- a Students are required to calculate sales volume and sales revenue:

$$\text{Sales volume} = \frac{\text{Sales revenue}}{\text{Selling price}}$$

$$\text{Sales revenue} = \text{selling price} \times \text{sales volume}$$

- b Students need to be able to identify the difference between fixed and variable costs and be able to identify which costs are fixed and which costs are variable. Fixed costs should include annual interest on a bank loan, which can be calculated by applying an interest rate to the size of a given loan; eg £10,000 loan at 10% per annum (p.a.) gives an interest cost of £1000 p.a. Students may be given variable costs per unit (average variable costs, AVC) and be required to calculate the total variable cost by multiplying the AVC by the quantity produced.

Calculation of revenue and costs could be part of a larger question that requires students to calculate the profit of a business over a period of time.

### 2.2.3 Break-even

- a Students may be required to calculate the contribution generated from selling a good or service from either a break-even chart or from numerical data.

$$\text{Contribution} = \text{selling price} - \text{variable cost per unit}$$

- b The break-even point is where total costs are the same as total revenue. Students should be able to identify the break-even level of output on a break-even diagram, but they will not be required to draw a break-even chart.
- c To calculate the break-even point using contribution:
- $$\frac{\text{Total fixed costs}}{\text{Contribution per unit}}$$
- d The margin of safety is the difference between the actual level of output and the break-even level of output. It shows by how much output can fall before the business reverts back to the break-even level of output.
- e Students could be provided with a pre-drawn break-even chart and be asked to use this information to identify revenues, fixed and variable costs, profits and losses at specified levels of output.
- f The break-even model has a number of limitations that reduce its use in the real world. These limitations include the assumptions of the model being too unrealistic and the fact that it is only really useful for a business that makes a single product.

### 2.2.4 Budgets

- a The purpose of budgeting as a planning, forecasting, communication and motivational tool should be considered here.
- b Students are required to understand the difference between historical budgeting (using current financial figures) and zero based budgeting (using figures based on potential performance).
- c Students should be able to perform a basic variance analysis on a set of figures by comparing budgets with actual figures to identify positive (favourable) and negative (adverse) variances.
- d Students need to consider the difficulties of historic and zero based budgeting techniques and the need for budgets to be realistic and flexible enough to cope with changing circumstances.



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### 2.3 Managing finance

This topic considers the different ways in which profit can be measured and the distinction between cash and profit. Students should be familiar with statements of comprehensive income and statements of financial position. There are links in this topic to 3.5.1 (Interpretation of financial statements) and 3.5.2 (Ratio analysis). Accounting ratios are detailed in Appendix 4 in the specification (page 39 of the AS and page 53 of the A level specification).

#### 2.3.1 Profit

- a The distinction between gross profit, operating profit and profit for the year (net profit) should be considered. Students are expected to calculate gross, operating and profit for the year using information from a company's statement of comprehensive income. The following formulae should be used:

$$\text{Gross profit} = \text{revenue} - \text{cost of sales}$$

$$\text{Operating profit} = \text{gross profit} - \text{other operating expenses}$$

$$\text{Net profit} = \text{operating profit} - \text{interest}$$

Appendix 4 on page 53 of the specification provides a summary of the required accounting ratios.

- b To measure profitability, students will be required to calculate the gross profit margin, operating profit margin and the profit for the year (net profit) margin. Students will need to be able to extract information from a statement of comprehensive income or a table.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100$$

$$\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Revenue}} \times 100$$

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}} \times 100$$

Students should interpret, draw comparisons and comment on what the calculated figures for these profitability ratios mean for a given business. Students will not be expected to compile their own statement of comprehensive income.

Students should consider the ways in which the business could improve its profitability using methods that will either increase revenue or decrease costs.

This sub-topic links with 2.3.2 and 2.3.3. Students should consider the distinction between cash and profit, in that profit is recorded straight away after a sale, whereas cash inflows and outflows will be recorded after the respective debtor and creditor periods have elapsed, allowing the profit to be realised in cash terms. Students will be expected to understand the importance of cash flow in preventing a business from failing. Following on from the cash flow exercise in 2.1.4, students could re-run a cash flow table taking into account debtor and creditor periods to examine the cash flow implications of accepting orders and to highlight the difference between cash and profit.

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### 2.3.2 Liquidity

- a Students should understand what a statement of financial position shows and be able to use it to calculate the liquidity position of a given business. They will need to be able to extract the information from the statement of financial position and calculate the current and acid test ratios, using the following formulae:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

Students will not be expected to compile a statement of financial position, but will be expected to know what the components of the statement of financial position mean. They should be able to calculate and interpret liquidity ratios for different businesses and explain ways in which cash flow/liquidity in a business could be improved.

- b Students should know the cycle of working capital and why cash is important to the business. There are links to sub-topics 2.3.1 (the difference between cash and profit) and 2.3.3 (business failure) here. Different businesses can operate successfully with different cash flow requirements.

### 2.3.3 Business failure

- a Potential causes of business failure that stem from inside the business include poor efficiency, marketing and failure to innovate. External factors might include economic recession and a strengthening pound, reducing export demand. The causes of failure can then be further sub-divided into financial and non-financial factors, such as poor communication and bad management of working capital.

Students should be able to explain the different causes of business failure and recognise that some causes of failure are more important than others for certain businesses. Students could research the causes of failure for two different businesses, such as Modelzone and Blockbuster.

## 2.4 Resource management

This sub-theme focuses on methods of allowing the business to operate at maximum efficiency in order to minimise the average total cost of production. It also considers different stock control (inventory) techniques with a view point towards maximising the use of the business's resources. Quality is also considered since this should not fall as a consequence of improved efficiency.

### 2.4.1 Production, productivity and efficiency

- a Students should be aware of the difference between different methods of production and the reasons why a product may be produced using different methods.
- b Productivity is defined as output per input (person or machine) per hour. This is not to be confused with production, which is the total amount of output produced in a time period. Students should be able to recognise and explain factors that will lead to improved productivity within a business, the potential drawbacks of some of the methods and understand the link between productivity and competitiveness.

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- c Efficiency is maximised when units of output are produced at minimum unit or average total cost and students will need to be able to explain reasons as to how a business could improve its efficiency. Labour intensive production is where labour is primarily used to produce the good or service and capital intensive production is where machines are primarily used to produce the good or service.

### 2.4.2 Capacity utilisation

- a Students should be able to calculate capacity utilisation as a percentage of maximum possible output. If a factory currently produces 40,000 units but has a maximum capacity of 100,000 units, its capacity utilisation can be calculated as follows:

$$\frac{40,000}{100,000} \times 100 = 40\%$$

- b Implications of under-capacity utilisation include higher fixed costs per unit, under-motivated staff, a negative brand image (for example, empty seats in a restaurant). However, there could also be some benefits in that there is sufficient space for the factory to meet new orders and maintenance and repair of machines can be scheduled more easily.

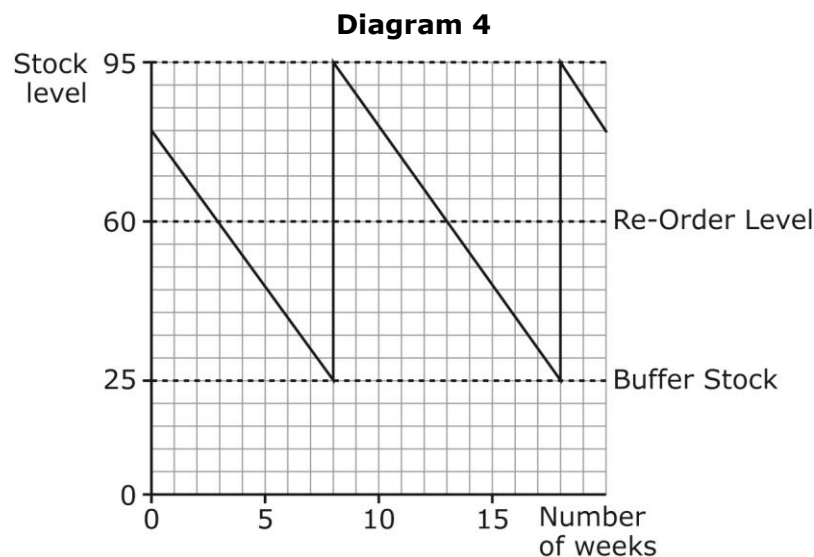
Problems of over-utilisation of capacity include increased overtime costs, mistakes in production, the inability to schedule machine maintenance and the inability to accept new orders.

- c Capacity utilisation can be improved through factors such as competitors exiting the market, balancing seasonal demand and improved marketing.

### 2.4.3 Stock control

- a Students will not be required to draw a stock control diagram, but may be asked to calculate figures and describe what the stock control diagram is showing. For example, students might be asked to calculate the size of specific orders, identify the re-order level of stock, identify the level of buffer stock and calculate the length of time stock takes to arrive after re-ordering.

In this example, the stock that arrived in week 8 took 5 weeks to arrive as the re-order level of stock was reached in week 3. The order that arrived in week 8 comprised 75 units (95-25 units).



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- b Students should be able to explain the advantages and disadvantages of holding buffer stocks for different businesses in different markets.
- c The stock-in and stock-out costs that result from poor stock control for different businesses that operate in different markets should be considered here.
- d Students should understand what just in time (JIT) management is and the advantages and disadvantages of JIT. Students should explore the different types of business that might be suited to a JIT stock management system and appreciate the link between JIT and waste minimisation and lean management.
- e Waste minimisation will help improve efficiency and reduce the unit costs of production.
- f Students should know what is meant by lean production, how lean production can be achieved and the benefits of achieving it. This concept is linked to those in (d) and (e) above.

### 2.4.4 Quality management

There is considerable cross-over in this section with 2.4.3 as JIT, lean production and waste minimisation could be deemed to be examples of continuous improvement.

- a Students need to know the distinction between quality control and quality assurance and the purpose of quality circles. Total Quality Management (TQM) is part of an organisation's culture where quality is at the centre of everything that an organisation does. Students should recognise the importance of quality in allowing a business to succeed and that the importance of this will differ from business to business.
- b Students should recognise the importance of continuous improvement (Kaizen) in a business and ways in which a culture of continuous improvement can be stimulated.
- c Quality refers to how well a product does what it is intended to do. In a competitive business environment, businesses compete by offering products or services that are different and/or superior to their rivals in ways that matter to customers. Quality is an important factor in gaining a competitive advantage as it is associated with consistency. For example, a satisfied customer may be more likely to repeat purchase from the business if they believe the products are of a high quality. Furthermore, customers who value quality may be willing to pay more for the product or service.

### 2.5 External influences

This topic requires students to consider the impacts of the economy and legislation on a business. Students are not required to have an in-depth understanding of legislation, but should focus on the effect new laws may have on the business.

#### 2.5.1 Economic influences

- a Students should explore the positive and negative impacts of economic change on businesses and recognise that different businesses will be impacted in differing magnitudes. Students are not expected to know the causes of any economic change(s).
- b Macroeconomic and microeconomic uncertainty can affect the business environment. For example, how might a shortage of agricultural products such as wheat or cocoa caused by crop disease or drought affect the supply and price of bread or chocolate? The role and significance of economic forecasting and the benefits of contingency planning could be considered.

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### 2.5.2 Legislation

- a Students are expected to know the effects of government legislation on a business. There is no requirement for an in-depth understanding of any specific policy; for example, students would be expected to know that competition policy could restrict the ability for a business to grow organically as opposed to a detailed list of the elements that make up UK/EU competition law.

### 2.5.3 The competitive environment

- a The competitive environment was introduced in 1.1.1c. Competition from other businesses will typically impact on business decision making in terms of the nature of ownership, the nature of the product/service and product range, pricing policies and marketing methods. Students could also consider how an independent grocer may respond to arrival of a local branch of a supermarket chain such as Tesco Metro, or how an independent hairdresser might respond to the promotional offers of a franchise hairdresser such as Toni & Guy.

Market size is essentially the number of buyers/consumers and sellers/producers in a particular market. This is especially important for businesses that wish to launch a new product or service, since small markets are less likely to be able to support a high volume of goods. Large markets could bring in more competition. There is an opportunity here for students to recognise the significance of sales volume and rate of sales turnover to a business's success. Successful entrepreneurs do their research to understand target markets, identify a customer base and weigh up the competition; for example, James Dyson and his bladeless fan in 2008.

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### Theme 3: Business decisions and strategy

This section provides ideas and suggestions for teaching approaches for Theme 3 and is not intended to be prescriptive. The specification should be referred to as the authoritative source of information.

#### 3.1 Business objectives and strategy

Business objectives are what a business hopes to achieve, and business strategy is what a business does to achieve these objectives.

Students should consider the difference between a generalised aim and mission and a more specific SMART objective, and should engage with published business documents, such as company accounts, that should help to illuminate this process. Considering different stakeholder views when reviewing mission statements is a useful first step in critically assessing them.

Students should explore a range of analytical tools and theories and understand the uses and limitations of these for businesses developing a corporate strategy.

##### 3.1.1 Corporate objectives

- a Students should explore the hierarchy of business objectives, starting with mission statements and general aims, proceeding through corporate objectives to departmental/functional objectives. An understanding of SMART objectives is also required.
- b Students should critically appraise the nature of mission statements and aims, and could consider the following:
  - What is their purpose?
  - Who is the intended audience?
  - How does the corporate strategy followed by the business compare to the mission in reality?

The uses and limitations of mission statements should also be considered here as well as different stakeholder perspectives: who is the mission statement aimed at and how does the strategy affect different groups?

##### 3.1.2 Theories of corporate strategy

- a Students should explore the key features of Ansoff's Matrix and Porter's Strategic Matrix (generic strategies), apply these strategies to business examples of corporate strategy, and make assessments of these based on Ansoff's and Porter's Matrices. Students should also evaluate the uses and limitations of Ansoff and Porter to the development of corporate strategy.
- b Students should explore the key features of the Boston Matrix (Boston Box) product portfolio analysis, and assess its uses and limitations in relation to business examples and applications to corporate strategy.
- c Students should consider Kay's (1993) model of distinctive capabilities and their origins: architecture; origin; reputation. These can be applied to business examples to analyse whether or not businesses have achieved a competitive advantage.
- d Students should be able to distinguish between strategic and tactical decisions in a business context. Strategy is more long term and relates to achieving an overall goal; tactics are shorter-term actions that help to achieve the strategy. Consideration of the impact of these should focus on the impact on human (recruitment, training, redundancy, etc.); physical (investment in fixed assets, location, etc.) and financial (sources of finance, etc.) resources. Students

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should be able to make judgements as to whether decisions are strategic or tactical and whether the distinction is useful in business.

### 3.1.3 SWOT analysis

- a SWOT analysis should be applied to a range of business examples, covering businesses of different sizes, with different objectives and operating in different sectors. This will enable students to gain a good overview of the differing nature of each aspect in different situations; for example, a micro start-up business compared with a large multinational. Students should consider how SWOT analysis can be used to make strategic and/or tactical decisions to achieve corporate objectives.

Strengths and weaknesses encompass aspects of the business functions that they can directly influence, such as people, marketing, finance and operations. Opportunities and threats relate to the external environment which can only be reacted to – this section could be taught with PESTLE in 3.1.4.

### 3.1.4 Impact of external influences

- a PESTLE analysis can be discussed as an extension to SWOT analysis. Students should consider each aspect and focus on its impact on business activity rather than its origin.
- b The focus on the changing competitive environment should emphasise the nature of dynamism within PESTLE and Porter's Five Forces. Students should focus on the external nature of change in this section.
- c Porter's Five Forces model should not be confused with Porter's Strategic Matrix in 3.1.2. Students should use this to analyse how a wider range of factors than simply competitors affect the environment in which businesses operate. Porter's explanation of his original model and an update can be explored.

## 3.2 Business growth

Students should explore how and why (and in some cases why not) businesses achieve growth. A starting point is how business size can be measured and, in turn, how growth can be measured. Different business case studies can be explored; for example, Marks and Spencer and its origins as a sole trader owned by Michael Marks, to its current position as a large multinational Public Limited Company.

### 3.2.1 Growth

- a Simple calculations could be completed when exploring economies of scale to demonstrate how average costs can fall as total output increases in a business. Achievement of this gives businesses the opportunity to increase profit margins and/or reduce prices.

The objective to 'increase market power over customers and suppliers' can be linked back to Porter's Five Forces in 3.1.4 and the objective to 'increase market share' can be exemplified by researching UK supermarkets and their quest to gain market share. This growth objective can be introduced as a short-to medium-term objective that feeds into the long-term objective of increased profitability. Profitability should be clearly distinguished from simply increased profits and this can be achieved with reference back to total costs and economies of scale. A Venn diagram approach could be used here, with students identifying the similarities and differences between profit and profitability.

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- b Diseconomies of scale can be explored through simple numerical examples of average cost increasing for a business beyond a certain level of output. Graphical representation through the use of long-run average cost curves is useful for developing quantitative skills.

The problems of growth can be analysed with reference to case studies, particularly those relating to businesses choosing to reduce their size. Overtrading is more commonly associated with new businesses and can be explored in lessons with reference to local, growing businesses.

### 3.2.2 Mergers and takeovers

- a An over-arching theme to this section is the comparison and contrast between the stated aims of a merger or takeover and the actual results. These are often very different and can be due to a range of issues, such as clashes in corporate culture that were not originally foreseen or considered in enough depth by key stakeholders in the beginning.

Mergers and takeovers can also be linked to the discussion of analytical frameworks, such as tactical and strategic decisions. Tactical reasons for takeovers include an attempt to ensure increased market share and access to technology, staff, or intellectual property. Strategic motives might include access to new markets, improved distribution networks or improved brand awareness.

- b Case studies can be used to exemplify how inorganic growth can be in the form of a merger where two or more businesses agree to join to form a new business; for example, BA merging with Iberia to become IAG. Takeovers usually involve one business taking control of another business following a buyout of their shares. The target business is then usually absorbed into the operations of the business that initiated the purchase; for example, Kraft's takeover of Cadbury.
- c A diagrammatic approach can be helpful when considering horizontal and vertical integration — drawing a chain of production from primary, through secondary, to tertiary sectors with different business examples in each — showing how different businesses joining at different stages can be categorised as horizontal (same sector) or vertical (different sector).
- d Financial risks can include the original purchase cost and the costs of adjusting the new business, such as redundancies of staff holding duplicate roles. Financial rewards can include immediate increased revenue from the new business and economies of scale leading to reduced costs.
- e Problems of rapid growth include diseconomies of scale resulting from communication problems and the loss of strategic direction and focus on core competency that can result from the joining of two or more previously separate businesses.

### 3.2.3 Organic growth

- a Unlike inorganic growth, organic growth does not involve another business taking over or merging with it.
- b Organic growth can be achieved through, for example: new product launches; opening new stores/branches; expanding into foreign markets; and expansion of the workforce. Ansoff's Matrix (3.1.2) could be revisited here, with students exploring examples of market development, product development and diversification.
- c Advantages of organic growth include: less expense in the short term; less risky due to an increased level of control of the variables; maintaining existing management and culture; and the ability to plan for and effectively control



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growth. Disadvantages include that it is often slow and can limit a business's ability to react to the growth of competitors, with growth being limited as a result; for example, funds may be limited to internal growth of sales revenues.

### 3.2.4 Reasons for staying small

- a This section is particularly (but not exclusively) relevant to small businesses that are established and considering the next step in their development. Links could be made back to Kay's distinctive capabilities (3.1.2) and how these might be maintained or strengthened from remaining small.

### 3.3 Decision-making techniques

This topic explores how businesses can use quantitative decision-making tools in order to increase the accuracy of their predictions and provide an element of predictability. Each method will involve a degree of calculation and interpretation of these results – the key is the business application of this information and the inherent limitations of each technique. Students should consider the limitations of the techniques and the assumptions on which each are based. Key questions for each could include the following:

- What is the purpose of this decision-making technique?
- What is the quantitative information that results and how might a business use it?
- What increases the accuracy of the results? For example, has this business made similar forecasts in the past? Have these been accurate?
- What assumptions is the method based on?
- How much of the information is based on estimates and how can a business aim to improve the accuracy of these estimates?
- What qualitative issues will impact on the decision and how can a business consider these?

#### 3.3.1 Quantitative sales forecasting

- a The calculation of three-period and four-quarter moving averages and interpretation of these is required.
- b This will include the calculation of cyclical and average variations and the use of these to extrapolate into the future, using line of best fit and the completion of graphs showing trend data. Time-series analysis can be used in a range of business concepts from sales forecasting to the estimation of future costs, such as energy usage. Students will be expected to make a limited number of calculations, but should be able to interpret these in a business context; for example, taking some previous sales data and making a forecast based on past trends.
- c The limitations of this approach can be summarised as: 'past performance is no guarantee of the future'. Businesses need to appreciate the additional factors (both internal and external) that can affect future predictions. Discussions here could be linked back to the SWOT/PESTLE sections (3.1.3 and 3.1.4).

#### 3.3.2 Investment appraisal

This section involves the traditional calculation methods of the following investment appraisal techniques:

- a Simple payback.
- b Average (Accounting) Rate of Return.

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- c Discounted Cash Flow (Net Present Value only).  
Students could be given a prediction of future cash flows, along with appropriate discount factors and, where appropriate, alternative investments that the business could choose to invest in.
- d Students should be able to explain what the results of their calculations show: for example, does a higher or lower figure make the investment attractive? What should this figure be compared with?
- e Students will also need to appreciate both the general limitations of investment appraisal — for example, it is based on future cash flow forecasts that are themselves predictions — and limitations of the individual techniques themselves.

### 3.3.3 Decision trees

- a Decision trees have a number of business uses; for example, the probability of success in a choice of product launch, different marketing campaigns, or a decision to relocate. Wherever there is uncertainty, but probabilities can be estimated, there is a role for decision trees. The emphasis is on the interpretation of simple decision trees and being familiar with their key features: decision nodes; chance nodes; probabilities and expected monetary values. Where construction is required, this will be in simple terms, with the range of probabilities limited. Key things to remind students include the importance of subtracting the initial investment costs from the expected monetary rewards.
- b Students should be able to complete calculations to determine the expected monetary rewards for different options. Interpretation of these calculations then stems from which option is best, while considering the initial investment costs and the probabilities of success. The big question with this technique is how the probabilities and estimates of returns are arrived at by the business in question. There is a large degree of uncertainty about any situation that a decision tree might be used for, so the benefits of adding this degree of quantitative certainty can be fundamentally questioned.
- c As with all decision-making techniques, the degree of usefulness will vary with the business context. Students should be encouraged to explore a range of examples of decisions where this might be an appropriate tool, and those where it is definitely not, giving reasons for this assessment.

### 3.3.4 Critical Path Analysis

- a Critical Path Analysis has a range of uses, from the more common examples, such as building projects, to other examples such as the completion of a marketing launch. Students should be familiar with a range of possible uses.  
Students should understand Critical Path Analysis and its role in scheduling a range of activities that make up a project. Its purpose is to plan projects in a way that limits the use of limited resources and enables a project to be completed in the shortest time possible.
- b Students are not required to construct critical path diagrams from scratch – the emphasis is on completing a semi-complete network and showing an understanding of what this shows a business in terms of its resource management.
- c The key areas for interpretation are the identification of the critical path and what this means for the business in question, along with total float. Calculations of Earliest Start Time and Latest Finish Times will be expected both in terms of completing semi-completed network diagrams and also calculating these based on a completed diagram.

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- d The limitations of Critical Path Analysis can be explored from two perspectives:
- The assumptions and estimates on which the technique is based – for example, the length of time needed for each activity, whether the next activity can actually start on time, etc.
  - The qualitative factors that the technique cannot account for – for example, the impact of the weather for large-scale building projects.

### 3.4 Influences on business decisions

Following the focus on quantitative techniques, this section explores the qualitative factors that have a major influence on the direction businesses take – as such, the focus of this section is on the 'human element' of business decision making. This section should be explored in terms of the underlying motives that can frame a business's strategy and inform decision making. There is clear cross-over with other sections of Theme 3; for example, objectives and strategy, analytical frameworks and decision-making techniques.

#### 3.4.1 Corporate influences

- a Corporate timescales refers to strategy and the expectation of when a return will be achieved. 'Short-termism' is where businesses and their managers are focused on quick financial reward, such as quarterly profit or sales figures, often at the expense of investment in important areas such as research and development, staff development or technology investment. 'Long-termism' is a more holistic approach to business strategy, incorporating aspects such as Corporate Social Responsibility (CSR) and ethical behaviour. Advocates argue that operating with a long-term timescale is not just the 'right' thing to do, but also the most commercially prudent approach.
- b Students should consider the basis of strategic and tactical decisions, and the advantages and disadvantages of each approach. 'Evidence-based approaches' encompass the use of the decision-making techniques explored in 3.3 and 3.5. 'Subjective decision making' is less structured and based on the decisions of key individuals in the business.

The importance of context should be emphasised; for example, small start-ups which have been loss-making in the first months of business are likely to be more short-term in their strategic outlook, and decision making may be more subjectively based on the views of the entrepreneurs involved in the business's inception.

#### 3.4.2 Corporate culture

- a (a to d) Students should explore what it is that makes a culture 'strong' or 'weak'. This might include a focus on core values and the recruitment and training of staff, as well as the history of the business and the role of its founders.

The classification of corporate culture can help students gain a greater understanding of this concept. The use and exploration of business case studies provide a good basis for exploring how corporate culture is formed and difficulties in changing an established culture. Students could consider the following:

- Would you categorise the culture as strong or weak?
- Which of the four classifications would you put this example in? What evidence do you have for this?

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- Why do you think this business has such a culture? From where does it originate? Do the founders of the business still work there? Are they key decision-makers?
- Has the culture always been as it is? What changes have occurred? How did the changes happen?

The formation of corporate culture depends on many factors that are unique to each business and its history. Some of the key factors include: the role of the founders and owners – are they still involved in key decisions, are they 'visible' to other workers?; the nature of the business and the products and services it sells; the degree to which these have changed over time; the business environment into which the business was born (this could be linked to PESTLE analysis); the recruitment and promotion process of key staff; working hours; and attitude to customer service.

This section can be linked to strong and weak cultures. Strong cultures are particularly difficult to change, but the nature of what constitutes culture makes it very difficult to adapt any organisation. This is because an organisation's culture comprises an interlocking set of goals, roles, processes, values, communications practices, attitudes and assumptions. This interlocking means that each component reinforces the other. Changes, such as those to management systems, customer service policies, or quality systems, can soon be drawn back into the existing organisational culture.

Large organisations often have sub-cultures in different areas of the business. Examples include: managers, part-time staff, sales assistants and delivery drivers.

Recent examples of businesses where cultural change has been difficult include Kodak, Nokia, London Underground, and previously, Marks and Spencer.

### 3.4.3 Shareholders versus stakeholders

- a The analysis of stakeholders is important from a number of perspectives:
  - Who are they?
  - Are they internal or external?
  - What is their power?
  - What is their interest?
  - How do they influence corporate objectives?
  - Are their influences positive or negative?
  - Do stakeholder influences conflict with those of the business's owners?
- b The focus should be on what the stakeholders' objectives are and what influences these. The key question is: do these objectives conflict with, or complement, those of the business overall? Stakeholder 'mapping' is a useful tool for students to use.
- c (c and d) Stakeholder influences and the potential for conflict between shareholders and stakeholders could be taught together: shareholder perspectives tend to focus on the achievement of profit, while the stakeholder approach might focus on wider ethical considerations.

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### 3.4.4 Business ethics

There is considerable cross-over in this section with 3.4.3, which discusses stakeholders and corporate culture. Students should be encouraged to make these links across the theme, particularly in relation to a specific context/case study.

- a Business ethics considers the moral 'rights and wrongs' of a decision. The main focus here is on the strategic level, rather than the decisions made by, for example, individual employees. The concept of a trade-off is an important one here, implying that, in some circumstances, it is not possible for a business's strategy to be both profitable and ethical, or at least ethical dimensions may have to be sacrificed.
- b The topic has a specific focus on the issue of pay and rewards in relation to ethics. Topical issues should be introduced here; for example, the difference between executive pay levels and those of employees could be explored and debated.
- c Corporate Social Responsibility (CSR) is now an established aspect of many business strategies. Its key features can be explored through the assessment of this section in business accounts. Students could collate this information and compare it to other declarations, such as the mission statement. Students should consider the strengths and weaknesses of an approach that focuses on CSR.

### 3.5 Assessing competitiveness

Students should explore published financial information and make assessments of a business's competitiveness based on this. The construction of financial documents (statement of income or statement of financial position) is not required but students should understand the main features of each and the interpretation of changes in these from year-to-year and from business to business.

An over-arching concept to this section is the stakeholder approach and which groups will be interested in different aspects of a business's performance. Concepts such as profitability, liquidity and solvency are important in analysing a business's financial position with more accuracy.

The section on human resource measurements can also be explored from a range of perspectives. Students should be encouraged to carry out the calculations as outlines, interpret these at face-value, but then look beyond these to explore underlying issues for different businesses and contexts. For example: the labour turnover figure suggests one thing, but how much of this is due to the business itself, and how much is it to do with external factors beyond the business's immediate control?

Once more, there is an opportunity to revisit and apply SWOT and PESTLE analysis to the results of these calculations. Students could consider which factors affecting the performance in financial statements or human resource competitiveness can be controlled, and which ones only reacted to.

#### 3.5.1 Interpretation of financial statements

- a Students should understand what the main features of a statement of comprehensive income represent. For example, what turnover, cost of sales and gross profit actually mean and what can affect these. A 'top-down approach' is often useful, with students gaining an understanding of what the business 'begins with' and what it 'ends up with' – the bottom line.

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The interests of stakeholders can be revisited and applied here. The perspective can be looking at the whole document and learning about the business's profitability — something owners or potential investors might want to do — or it could be focusing on specific sections; for example, expenses might be particularly interesting for managers and workers, particularly if labour costs make up a large part of these expenses.

- b A similar approach can be taken with the statement of financial position – students should understand what this information shows about a business, something that is much more abstract for this document than it is for the income statement. In simple terms, it is the 'worth of a business on a given day' – a snapshot. It shows whether a business can pay its bills on time, its financial flexibility to acquire capital and its ability to distribute cash in the form of dividends to the company's owners.

Liquidity and solvency should be discussed as concepts and also applied to specific figures in given financial information.

### 3.5.2 Ratio analysis

- a The ratios in this section should be covered in addition to revisiting those in Theme 2. The ratios are detailed in Appendix 4 of the specification (on page 39 of the AS and page 53 of the A level specification).

- b Gearing measures the proportion of a business that is financed from long-term borrowing. These lenders are often banks and therefore expect an interest payment in addition to the repayment of the original loan amount. A higher gearing ratio indicates a greater vulnerability to interest rate changes.

The difference between a highly geared business (ratio over 50%) and a low geared business (below 50%) should be considered. Students should also be encouraged to try to find out why funds have been borrowed; for example, borrowing to purchase assets in order to expand may be seen as less of a problem than borrowing to finance current expenditure or cover cash flow problems.

Students should consider the business decisions that can be informed by these ratios, such as the following:

- How should we finance expansion?
- What are the costs and benefits of financing through borrowing compared with doing so through further equity release?
- Are stakeholders securing an acceptable return on their investments? Are alternative investments more attractive?

- c The limitations of ratios should also be considered in this section:

- They are only as useful as the financial documents on which they are based; for example, a statement of financial position is a 'snapshot' and therefore subject to change.
- Ratios need to be compared over a long time period to gain an understanding of trends.
- Comparison with competitors is needed to put the figures into industry context and understand which factors the business can control and which ones may be affecting all businesses.

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### 3.5.3 Human resources

- a When interpreting labour productivity, labour turnover and retention, and absenteeism, students can determine, for example, that a high labour turnover suggests that a large number of staff are leaving a business, possibly because it is not a good place to work.

However, after these literal interpretations, wider issues should be considered. For example, is the type of business one where people naturally only work there for a few months/years due to the age profile of workers? Students can draw on their own experiences if relevant; for example, they may work in retail or the wider service sector before moving on to employment/training elsewhere.

Businesses need to understand as much as possible about the underlying causes of changes in these measures if they are to be able to 'make decisions' based on these. These decisions might include: changing recruitment methods and policies, new training, a different approach to pay and rewards, etc. If the information on which these decisions are based is not scrutinised and, importantly, the staff involved are not questioned, then the resulting decisions are less likely to be the best ones for the business.

- b An overview of what each human resource strategy is and their intended purpose is required but specialist detail of different strategies is not a requirement.

### 3.6 Managing change

This topic explores how change can be implemented and the factors that influence its likely success. Making business decisions is one thing, but ensuring the desired outcomes for these decisions is another. This section draws together the concepts introduced throughout the theme.

The distinction between internal and external factors is a useful framework, linking back to SWOT analysis and some of the other analytical frameworks. Students should understand the qualitative factors that will impact on business decision making. Management of change theories (for example, Kotter) are not a requirement but could be included within the teaching and learning.

#### 3.6.1 Causes and effects of change

The causes of change are broad, but students do not need to investigate these beyond applying concepts from elsewhere in general terms – the focus of the section is how these changes impact on a business and so what issues they raise for managing the change:

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<b>Change</b>	<b>How this might manifest itself</b>	<b>Issues for managers to address</b>
Changes in organisational size	The business expands into a new international location	<ul style="list-style-type: none"> <li>• communication</li> <li>• performance management</li> <li>• training</li> <li>• motivation</li> <li>• labour costs</li> <li>• impact on business culture</li> </ul>
Poor business performance	This will vary between businesses but might include: <ul style="list-style-type: none"> <li>• poor sales figures</li> <li>• lower profits than expected</li> <li>• increased costs of operations</li> <li>• slower expansion than planned</li> </ul>	<ul style="list-style-type: none"> <li>• how to improve performance</li> <li>• resistance to change</li> <li>• changing objectives and/or strategy</li> </ul>
New ownership	<ul style="list-style-type: none"> <li>• merger</li> <li>• takeover</li> <li>• development from Ltd to PLC</li> <li>• management buy-out</li> </ul>	<ul style="list-style-type: none"> <li>• role duplication</li> <li>• culture clash</li> <li>• brand management</li> <li>• methods of communication</li> </ul>
Transformational leadership (see below)	Change in leadership personnel and/or ethos	<ul style="list-style-type: none"> <li>• resistance to change</li> </ul>
The market and other external factors (PESTLE)	<ul style="list-style-type: none"> <li>• new entrants to the market</li> <li>• completion leaving the market (link back to Porter's Five Forces model)</li> </ul>	<ul style="list-style-type: none"> <li>• corporate objectives change</li> <li>• new strategy</li> <li>• increased research and development</li> <li>• brand strategy adjustment</li> </ul>

Students are not required to learn lots of new concepts beyond new key terms in this section. The aim is for them to apply the key causes of change identified in the rest of the theme and course to the concept of change itself.

Transformational leadership is a different concept because the driver of change comes from the management, rather than the management dealing with other reasons for change. However, it is often the case that a transformational leader will develop their role, or be put in place as a wider reaction from the key stakeholders in a business to the need for change.



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### 3.6.2 Key factors in change

- a (a to d) Students should explore the factors that influence the origin, nature of and reaction to change in a business. The concepts here have been covered in detail in the rest of the theme and students should analyse the possible impact they could have on how and why businesses change.

### 3.6.3 Scenario planning

- a Scenario planning is the process of anticipating possible changes in a business's situation and devising ways of dealing with them. It incorporates the features of what is also known as contingency planning.

Complex numerical risk assessment techniques are not required here, but the technique of comparing probability with potential financial impact, as used in decision trees, is useful.

- b There are degrees of risk mitigation and these depend on specific contextual influences and the overall attitude of decision-makers in the business:
- Risk acceptance – where the full cost of mitigation is greater than the cost of the risk itself. This is often the case for small businesses.
  - Risk avoidance – this is the opposite of risk acceptance. It could involve ceasing to follow a particular action altogether; for example, a multinational pulling out of an unstable country.
  - Risk limitation – this is the most common risk management strategy used by businesses. An example of risk limitation is a company accepting that data storage may fail and avoiding a long period of failure by having back-ups.
  - Risk transference – this is the involvement of handing risk off to a willing third party. For example, numerous companies outsource operations such as customer service, payroll services, etc.

Business continuity may take the form of identifying alternative locations if struck by a natural disaster or providing a range of data back-up in the event of IT systems failure. Succession planning may be incorporated as part of HR strategy and could involve making use of work-shadowing and staff appraisals to share experiences and train staff in a range of business areas (job rotation and job enrichment), so that staff can step in if colleagues leave.

## 4. Content guidance

### Theme 4: Global business

This section provides ideas and suggestions for teaching approaches for Theme 4 and is not intended to be prescriptive. The specification should be referred to as the authoritative source of information.

#### 4.1 Globalisation

In this topic students should understand that the majority of businesses no longer view their markets to be purely domestic. Globalisation has created significant opportunities for businesses to sell their goods and services overseas. However, at the same time, this has led to significant increases in global competition in world markets.

This topic explores the reasons why globalisation has occurred and the reasons why some countries may want to limit its spread.

##### 4.1.1 Growing economies

- a Students will not be expected to state the growth rate of any specific country but should understand how the growth rate of emerging economies compares with the UK.
- b Students could consider the BRICS and MINT economies. BRICS economies are considered to be: Brazil, Russia, India, China and South Africa. MINT economies are considered to be: Mexico, Indonesia, Nigeria and Turkey. The emerging economies with increasing average incomes suggest that the middle classes are increasing. This provides these economies with increasing market power over traditional western economies. Increased demand for western goods and services in these markets is likely to result in significant increases in profitability.
- c Demand in emerging economies is likely to be income elastic, providing significant opportunities for increased revenues and profit. Equally, low labour costs and proximity to a market that is growing in size has led to more firms deciding to outsource production/customer service facilities to locations such as China and India. This has had implications for employment in the UK in certain, but not all, industries.
- d Students should be able to recognise indicators of economic growth and interpret what the indicators of growth are telling them about a given country. There is no requirement to know how to calculate Gross Domestic Product (GDP) per capita or Human Development Index (HDI).

##### 4.1.2 International trade and business growth

- a Students should recognise the distinction between imports and exports.
- b Students are not required to understand the theory of comparative advantage, but should understand what specialisation is and how it results in greater efficiency. This allows for goods and services to be produced at a lower unit cost, which then allows a business to reduce its prices or increase its profit margin.
- c Students are required to know what foreign direct investment (FDI) is and how it allows a business to grow.

##### 4.1.3 Factors contributing to increased globalisation

- a Students are expected to know what trade liberalisation is, and how it makes markets more competitive and creates more opportunities for businesses.

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Students should also be able to articulate the benefits and drawbacks of the trade liberalisation process.

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- b (b to h) Students are expected to know how all of these factors — political change, reduced cost of transport and communication, increased significance of global companies, increased investment flows, migration, growth of the global labour force and structural change — have led to increased globalisation of markets and the impacts on businesses resulting from these factors.  
For example, larger ships and containerisation have significantly reduced transportation costs, therefore allowing production overseas to become competitive compared with domestically produced goods and services.

### 4.1.4 Protectionism

- a In this section students are expected to know what a tariff is, how it works and the impact of a tariff on a business's ability to sell overseas. Why a country may impose tariffs and the possible advantages and disadvantages of doing so should also be considered.
- b Students should explore what an import quota is, how it works and the impact of an import quota on a business's ability to sell overseas. Students need to know why a country may impose import quotas and the possible advantages and disadvantages of doing so.
- c Other trade barriers, namely government legislation and domestic subsidies, should be explored. Students are expected to know how non-tariff barriers restrict trade and the impact they will have on a business's ability to sell overseas. Students should understand why a country may impose trade barriers and the possible advantages and disadvantages of doing so.

### 4.1.5 Trading blocs

- a Students should recognise the link between trade liberalisation and trading blocs. When a country joins a trading bloc, this makes it easier for the businesses located with the trading bloc to sell to that country. Students need to understand the opportunities and drawbacks of selling goods and services to a country within an expanding trading bloc. The EU is the European Union, ASEAN is the Association of South East Asian Nations and NAFTA is the North American Free Trade Area.
- b Students are not expected to have an in-depth understanding of specific trading blocs, but should focus on the opportunities and drawbacks for a business that is either located within a trading bloc member country or is wishing to sell to a market within a given trading bloc from a country which is not a member of the trading bloc.

## 4.2 Global markets and business expansion

This section considers the reasons why businesses based in more affluent countries such as the UK may want sell their goods and services in overseas markets and/or relocate overseas. This section builds on topic 4.1 since it explores the opportunities faced by businesses from the increasing globalisation of markets.

### 4.2.1 Conditions that prompt trade

- a There are some factors that force businesses to consider selling abroad, such high levels of domestic competition and a saturated market which offers only low growth opportunities. These are push factors.
- b There are significant opportunities for businesses selling to overseas markets, such as the ability to spread risk and the ability to gain the benefits of global economies of scale. These are pull factors.

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- c Students should understand the difference between off-shoring and outsourcing and the benefits and drawbacks of both of them to a business. Off-shoring is the relocation of a business function, usually manufacturing or customer services, to a location overseas. Outsourcing is where a business function is contracted out to a third party. The third-party organisation may or may not be located overseas.
- d Products can be in different stages of the product life cycle depending on a given country; for example, a product in the decline phase in the UK can be in the growth phase in emerging markets. Students should explore the reasons for this.

### 4.2.2 Assessment of a country as a market

- a Students should be able to identify factors that will make some countries more attractive as a market than others. For example, poor infrastructure in a country could decrease the ability to deliver goods at a low cost or on time, reducing the attractiveness of that market.

### 4.2.3 Assessment of a country as a production location

- a Students should be able to recognise factors that make one country more/less attractive as a production location compared with other countries. Students should be able to make judgements between which factors are more important given the nature of the business, the product it sells and the market it operates in. As an activity, students could be given information on a variety of different countries and be asked in groups to decide which country is the best production location for a particular product or service. Some could be straightforward, such as extractive industries, whereas others could be more debatable, such as overseas customer support (call) centres.

### 4.2.4 Reasons for global mergers or joint ventures

- a (a to e) The reasons why mergers/joint ventures occur and the rationale behind them should be explored in this section. Students should be able to make judgements as to the most important reasons why a merger/joint venture has occurred and articulate the benefits and drawbacks of any merger/joint venture activity to the businesses involved.

### 4.2.5 Global competitiveness

- a Students should explore what an appreciation or depreciation of a currency means and the implications of exchange rate movements on different businesses. For example, a strong pound will make imports cheaper in pounds. However, the impact of this depends on the degree to which a UK-based business purchases its raw materials from overseas and the extent to which it is susceptible to foreign competitors in its domestic market.
- b Competitive advantage can be achieved through cost leadership which, in turn, allows for lower prices. Differentiation is another route to gaining a competitive advantage. Students are expected to be able to identify which of the two routes a business has taken to achieve competitive advantage and the reasons behind that decision.

There are considerable links between other parts of Theme 4 in this section — for example, outsourcing, gaining global economies of scale, off-shoring — since the aim of a business is to gain competitive advantage.

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- c The lack of ability to acquire skilled workers could lead to a decline in competitiveness. Students should recognise that the impact of skill shortages will be felt more heavily on businesses that follow a differentiated approach to gaining a competitive advantage. There are again links with other parts of Theme 4 in this section since off-shoring and outsourcing are potential solutions to this problem.

### 4.3 Global marketing

This topic follows on from the previous section and examines how businesses can adapt their marketing to the challenge of selling in a newly identified overseas market. Students should recognise that, depending on the product, different marketing approaches may be necessary to overcome the barriers that prevent successful marketing in certain countries.

#### 4.3.1 Marketing

- a Students should be able to distinguish between different types of marketing strategy and determine which type of marketing strategy a business, given the product it sells, should use.

Glocalisation is captured by the phrase 'think global, act local' and refers to the notion of having to personalise marketing where required to the local market, while at the same time trying to keep marketing approaches consistent across all markets.
- b Students are expected to have an understanding of the different marketing approaches business adopt in international marketing and apply the correct marketing strategy to a business considering the markets it operates in and the nature of the products it produces.

Students should consider the advantages and disadvantages of each approach and recognise examples of each; for example, Apple and Ferrari sell mostly standardised products everywhere, McDonald's maintains a global brand but adapt its menus in each country and Unilever adapts many of its products to each individual market.
- c The 4Ps and Ansoff's Matrix should be explored in relation to businesses operating in the international marketplace in this section. For example, promotional activities may need to be adapted to be culturally relevant or avoid offence, and products may need to be changed to meet differing needs or cultural sensibilities.

#### 4.3.2 Niche markets

- a Different markets have different cultural and religious sensitivities. Students should explore these and the impact this has on businesses operating globally.
- b Global niche markets are small specialised parts of a global market. Within an individual country these markets may be relatively small, but combining them over several countries provides a large enough market for a business to enjoy significant demand.
- c Businesses will need to develop a marketing strategy (4Ps) which is suitable for global niche markets. Students could be given a niche market product, such as Beats by Dr Dre headphones, and be tasked with designing a marketing campaign for the product that allows it to be successfully sold in a given country. Students could research the style of advertisements used in a given country using YouTube and research the country.

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### 4.3.3 Cultural/social factors

- a All markets will have their differences and the elements of the marketing mix will need to be adapted to cater for individual markets. Depending on the product and the country, there may be the need for more/less adaptations. For example, UK products for the Australian market may require fewer adaptations than those for the Chinese market since the cultural and social differences between Australia and the UK are relatively small. Students could be shown examples of food names to illustrate the difficulties of branding a product in one country that does not offend people's sensitivities in another country.

### 4.4 Global industries and companies (multinational corporations)

This topic considers the impacts of MNCs on a country's economy and examines the benefits and drawbacks to that country from the operation of an MNC to a range of stakeholders. Students should be able to question whether an MNC is operating in a truly ethical manner and recognise the difficulties of controlling global companies, especially in LEDCs.

#### 4.4.1 The impact of MNCs

- a Students should understand what an MNC is and the impact it can have on a country's local economy. Depending on the nature of the MNC, a country may benefit to a greater/lesser degree. Students should consider both positive and negative impacts.
- b The impact on the national economy should also be considered. Students should consider both positive and negative impacts as well as the extent to which a country might benefit. For example, a country is likely to benefit from a MNC mining company if the mineral resource is rare, since the MNC does not have the option of choosing a different country. A country is likely to benefit more from an MNC producing textiles, since these types of business are labour intensive and it is unlikely that ex-patriot labour will be used. Therefore, although best practice transfer will be limited due to the skill level of the work, there could be a substantial decrease in unemployment in the LEDC.

Students could research the impact of Ford's decision in 2013 to cease the production of cars and vans in the UK, with van production being switched to Turkey.

#### 4.4.2 Ethics

- a Conflicts between stakeholders resulting from the operation of an MNC should be explored. For example, conflict over resource depletion allowing for greater profits but at the expense of pollution in the host country.
- b Pay and working conditions should be explored. Is it ethical for workers in LEDCs to be paid less and accept possibly unsafe working conditions compared with equivalent workers in the UK?
- c Should MNCs be allowed to follow less stringent environmental legislation in LEDCs compared with countries such as the UK? Students should explore environmental considerations such as emissions and waste disposal.
- d Supply chain considerations, namely the exploitation of labour and child labour should be considered here. Is it in the best interests of the MNC to exploit the supply chain and child labour? Students should consider various MNCs and whether the products sold by the MNC are more/less likely to result in damaging protests.

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- e Promotional activities and labelling will, to a degree, have to be altered around the specifics of an individual market. This will depend on characteristics of the country the business is trying to sell to and the nature of the product. This could be considered with cultural and social factors in 4.3.3.

### 4.4.3 Controlling MNCs

- a Students should consider the likely success of different methods of controlling the activities of MNCs and the benefits and drawbacks of each method. Different methods of control are more or less likely to work depending on the MNC, the activities of the MNC and the country in question. For example, an MNC extracting a relatively rare ore from a country should be in a situation where political and legal controls work since the MNC has limited market power because this resource is not ubiquitous and can only be found in certain geological locations. Footloose MNCs, on the other hand, are much more difficult to control since they can threaten to relocate out of a country, taking FDI, tax revenues and employment with them.



## 5. Assessment guidance

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### 5.1 Implications of linear assessment

For the AS level qualification, both exams (Paper 1 and Paper 2) must be sat at the end of the course – normally one year. First AS level assessment for the new specifications is 2016.

For the A level qualification, the three exams (Paper 1, Paper 2 and Paper 3) must be sat at the end of the course (normally two years). First A level assessment for the new specifications is 2017.

There will be no January assessment window and it will not be possible to take exams for the same qualification in different exam series: all assessments must be completed together at the end of the course.

It will not be possible for students to re-sit individual components. Students may re-take the whole AS or A level qualification.

### 5.2 AS level assessment

The focus at AS level is on building knowledge and understanding of core business concepts, with a greater emphasis on breadth rather than depth.

There are two externally assessed papers at AS level. Each paper comprises 80 marks and is 1 hour 30 in duration.

Each paper assesses distinct areas of the specification content, with Paper 1 assessing Theme 1 content and Paper 2 assessing Theme 2 content. In each paper, Section A and Section B are based on stimulus material and assess breadth, with data response questions (including short answer questions) that have a greater focus on AO1 and AO2. These questions integrate the requirements in the assessment objectives, ensuring that knowledge is not demonstrated in isolation from business applications. The stimulus material will be drawn from various business contexts.

Section C is based on stimulus material and assesses depth, enabling students to demonstrate higher-order skills. The extended open-response question in Section C assesses extended writing skills and enables students to make connections between the business concepts.

The structure of the two papers is the same to ensure a consistent approach to assessing the different content areas.

All of the stimulus material is based on real businesses and real data. This supports students in developing a holistic understanding of how the core concepts and theories relate to the real world in which they live and work. This approach also supports students in genuine application to a range of business contexts.

At AS level synoptic assessment is achieved through linking topics within themes – students are required to make connections between two functional business areas and understand the linkages across core content areas.

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### 5.3 A level assessment

There are three externally assessed papers at A level. Each comprises 100 marks and is 2 hours in duration.

Paper 1 and Paper 2 assess distinct areas of the qualification content, with Paper 1 assessing Theme 1 and Theme 4 content, and Paper 2 assessing Theme 2 and Theme 3 content. In each paper, each section is based on stimulus material and comprises data response questions (including short answer questions), which have a greater focus on breadth and AO1 and AO2. The short answer questions integrate the requirements in the assessment objectives, ensuring that knowledge is not demonstrated in isolation from business applications. The extended open-response question in each section assesses depth, enabling students to demonstrate higher order and extended writing skills. The stimulus material will be drawn from various business contexts.

As with the AS level, all of the stimulus material in the A level is based on real businesses and real data to support students in developing a holistic understanding of how the core concepts and theories relate to the real world in which they live and work. This approach also supports students in genuine application to a range of business contexts.

At A level synoptic assessment is achieved through linking themes across the specification (Theme 1 and Theme 4 in Paper 1, Theme 2 and Theme 3 in Paper 2), linking topics within themes and linking across all themes (in Paper 3). Students are required to make connections and understand the linkages across the whole specification content at A level.

A key differentiator between the AS and A level assessments is that the A level papers draw on content from across all four themes; unlike the AS, Theme 1 and Theme 2 content is not assessed discretely at A level. A further differentiation is provided in the style of questions at A level when assessing content that is covered in Theme 1 and Theme 2; for example, students may be asked to define a concept from Theme 1 in the AS level assessments but may be asked to explain the impact of this concept in the A level assessments. Students may be required to perform a calculation at AS level but may be asked to complete an additional step (such as interpret the result of this calculation) at A level.

### 5.4 Pre-released context (A level Paper 3 only)

To support the investigatory nature of the specification, A level Paper 3 has a broad pre-released context. This broad context will be released in November of the previous year, will be available on the Edexcel website and will relate to the examination series in the following summer.

The focus is on a broad business context, such as an industry or market in which businesses operate. The first section of the paper will focus on this broad context and the second section will focus on at least one strand within the context provided, such as a particular business. For example, in the sample assessment materials, the broad pre-released context is the snack foods market, the focus in the first section of the paper is the market for crisps and the strand in the second section of the paper is a business operating within the snack foods market, in this case Burt's Crisps.

The purpose of the pre-released context is to enable students to conduct independent learning and research. These are important skills to develop for progression to university. The pre-released context provides a basis for further research and investigation by the student. It is also an opportunity for them to become familiar with current issues and trends and enable them to draw on this familiar context to respond to unfamiliar stimulus material.

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Each section of Paper 3 will contain unseen stimulus materials and students will need to apply their knowledge and understanding from all four themes and their understanding of the broad context to this evidence. Through this, students will make connections between the content and will demonstrate a holistic understanding of the subject content (which is similar to the Unit 4 paper in the 2008 specification). Both sections have the same structure but require students to apply their knowledge and understanding to two different unseen contexts which have been chosen to reflect the breadth and depth of the subject.

The pre-released context supports the findings of the research conducted with key stakeholders, including universities, and supports the application of business theory to real-world business contexts.

### 5.5 Question types

A range of question types have been used across the AS and A level Business assessments. All of the questions are based on stimulus material, underpinning the importance of the application of knowledge and understanding to a range of business contexts.

Short open response questions have been used to assess both discrete knowledge and understanding of business concepts and issues (AO1) as well as the application of these concepts to a particular business stimulus or context (AO2). Questions assessing AO1 target lower-order skills. Short open response questions also allow for the development of student responses, requiring students to make connections and show a logical chain of reasoning and therefore access higher-order cognitive skills and demand (AO3). Extended open response items have been used to assess across the breadth of assessment objectives.

### 5.6 Taxonomy (command words)

Taxonomy relates to the command words used in assessments. A taxonomy for Business has been defined and will be applied consistently to ensure students are rewarded for demonstrating the appropriate skills for the subject. Careful consideration has been given to the taxonomies associated with particular question types to ensure that assessment objectives are targeted consistently across questions. The variety of command words used has been reduced to provide clarity and consistency in the skills business students are expected to display in the assessments.

The skills students are required to demonstrate in their responses are summarised below and detailed in the skills-based mark schemes (see section 5.7).

Command	Definition
<b>What is meant by / Give</b>	AS only. Assesses factual information and requires a definition or examples.
<b>Calculate / Using</b>	Assesses quantitative skills. 'Calculate' requires a calculation comprising at least four stages. For example, locating the data, identifying the formula, substituting the data in the formula and performing the calculation.  'Using' requires students to use a prescribed diagram or formula.
<b>Explain</b>	Requires a multi-stage definition relating to context and includes analysis. In terms of graphs, includes interpretation. Requires students to convey understanding by making a point and linking the point

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	with a justification.
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Command	Definition
<b>Assess</b>	Requires a balanced answer with connectives. Requires students to carefully consider all the factors or events that apply and identify which are the most important or relevant. Requires students to make an informed judgement on the importance of something and provide a conclusion where needed.
<b>Evaluate</b>	Requires an informed judgement and supported conclusion. Requires students to review information then bring it together to form a conclusion, drawing on evidence including strengths, weaknesses, alternative actions, relevant data or information. Requires students to come to a supported judgement of a subject's qualities in relation to its context.

These command words are used consistently between sections within papers and across papers to ensure comparability.

### 5.7 Mark schemes

Skills based mark schemes have been developed for extended open response questions (8, 10, 12 and 20 mark questions). These mark schemes provide a consistent understanding of the skills and connections between these skills for each question type and relate directly to the taxonomies (command words) used in the assessments. The bands within each mark scheme clearly show the progression of these skills from the lower bands to the higher bands. Focusing on the skills students are required to demonstrate within each command word ensures that wording is clear, reduces reliance on subjective statements such as 'some analysis' and reflects how teachers and examiners describe the qualities of student work, meaning the expectations are clear for teachers and for markers. There is a skills-based mark scheme for each of the command words and these will be applied consistently.

For example, below is the mark scheme for a 12 mark 'assess' question. The skills outlined in the Assessment Objectives (knowledge and understanding, application, analysis and evaluation) are connected and evidenced throughout the levels.

## 5. Assessment guidance

Level	Mark	Descriptor
<b>Level 1</b>	1–2	<ul style="list-style-type: none"> <li>• Isolated elements of knowledge and understanding – recall based.</li> <li>• Weak or no relevant application to business examples.</li> <li>• Generic assertions may be presented.</li> </ul>
<b>Level 2</b>	3–4	<ul style="list-style-type: none"> <li>• Elements of knowledge and understanding.</li> <li>• Which are applied to the business example.</li> <li>• Chains of reasoning are presented, but may be assertions or incomplete.</li> <li>• A generic or superficial assessment is presented.</li> </ul>
<b>Level 3</b>	5–8	<ul style="list-style-type: none"> <li>• Accurate and thorough knowledge and understanding.</li> <li>• Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s).</li> <li>• An attempt at an assessment is presented using quantitative and/or qualitative information.</li> <li>• Supported throughout by use of the business behaviour/context, though unlikely to show the significance of competing arguments.</li> </ul>
<b>Level 4</b>	9–12	<ul style="list-style-type: none"> <li>• Accurate and thorough knowledge and understanding.</li> <li>• A coherent and logical chain of reasoning, showing cause(s) and/or effect(s).</li> <li>• Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information.</li> <li>• Supported throughout by relevant and effective use of the business behaviour/context, and shows an awareness of competing arguments/factors leading to a supported judgement.</li> </ul>

The mark schemes focus on the *quality* of student answers rather than the *quantity* of points made and, as such, do not state any number of points students should make in their responses. To guide teachers and markers, the breakdown of marks allocated to each Assessment Objective is given within the levels based mark schemes to identify the emphasis of each Assessment Objective within each question type.

The application of the new mark schemes will be demonstrated in the exemplar materials (marked student answers to the sample assessment questions with examiner commentary) which are available on the Pearson Edexcel website.

## 6. Quantitative skills

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### 6.1 Application of quantitative skills

Students are required to develop and demonstrate competence in the quantitative skills outlined in this section throughout the course of study. It is important for these skills to be applied to relevant business contexts to ensure students develop a holistic understanding of the application of quantitative skills to business. Students will already be familiar with most of the skills through their study of GCSE Maths and it is important to demonstrate how these mathematical skills are relevant to real-life business practice.

Quantitative skills will be assessed in each exam series, with a minimum of 10% of the total marks across the AS level or A level accounting for the assessment of the quantitative skills outlined in the Annex in the Department for Education's *Subject Content for Business* document. These skills will be assessed at level 2 mathematical skills applied in an AS or A level Business context.

Where appropriate, the quantitative skills have been included within the specified content in each theme of the specification. The tables in this section capture the direct references to the quantitative skills within the specification content and make suggestions of where these skills may be further developed through application to wider business contexts. These are not exhaustive and there are opportunities for students to develop these skills throughout the specification content – students should be encouraged to practise and apply these skills throughout each theme.

The skills can also be developed through the use of stimulus material and case studies, providing opportunities for students to apply a range of quantitative skills to analyse real business cases. This stimulus material should take the form of both qualitative and quantitative business information.

Quantitative skills will be assessed in discrete 'calculate' questions as well as within extended open-response questions. The mark schemes make clear the quantitative skills assessed within questions and how the marks are allocated to these skills within extended questions.

Further support materials for quantitative skills, covering the possible methods, some suggested themes to use for applying the skills, suggested practice questions and areas of possible confusion for students, are available on the subject pages of the Edexcel website.

Quantitative skill	Application
Calculate, use and understand ratios, averages and fractions	1.1.1 The market 1.1.2 Market research 1.1.3 Market positioning 2.1.4 Planning 2.2.2 Sales, revenues and costs 2.2.3 Break-even 2.3.1 Profit 2.3.2 Liquidity 2.4.2 Capacity utilisation 3.3.1 Quantitative sales forecasting 3.5.2 Ratio analysis 3.5.3 Human resources

## 6. Quantitative skills

Quantitative skill	Application
Calculate, use and understand percentages and percentage changes	1.1.1 The market 1.1.2 Market research 1.1.3 Market positioning 1.3.3 Pricing strategies 2.2.2 Sales, revenues and costs 2.3.1 Profit 2.3.2 Liquidity 2.4.2 Capacity utilisation 2.5.1 Economic influences 3.5.2 Ratio analysis 3.5.3 Human resources 4.1.1 Growing economies
Construct and interpret a range of standard graphical forms	1.1.3 Market positioning 1.2.3 Markets 1.3.5 Marketing strategy 1.4.3 Organisational design 2.2.3 Break even 2.4.3 Stock control 3.1.2 Theories of corporate strategy 3.3.1 Quantitative sales forecasting 3.3.3 Decision trees 3.3.4 Critical path analysis 4.3.1 Marketing The use of stimulus material throughout the teaching and learning will enable students to interpret a wide range of standard graphical forms.
Interpret index numbers	1.1.1 The market 1.2.1 Demand 1.2.2 Supply 2.5.1 Economic influences 3.1.4 Impact of external influences 4.1.1 Growing economies

## 6. Quantitative skills

Quantitative skill	Application
Calculate cost, revenue, profit and break-even	<ul style="list-style-type: none"> <li>1.1.3 Market positioning</li> <li>1.3.2 Branding and promotion</li> <li>1.3.3 Pricing strategies</li> <li>2.1.4 Planning</li> <li>2.2.1 Sales forecasting</li> <li>2.2.2 Sales, revenue and costs</li> <li>2.2.3 Break-even</li> <li>2.2.4 Budgets</li> <li>2.3.1 Profit</li> <li>2.3.2 Liquidity</li> <li>2.4.1 Production, productivity and efficiency</li> <li>3.3.1 Quantitative sales forecasting</li> <li>3.5.1 Interpretation of financial statements</li> <li>3.5.2 Ratio analysis</li> <li>3.5.3 Human resources</li> <li>4.2.5 Global competitiveness</li> </ul>
Calculate investment appraisal outcomes and interpret results	<ul style="list-style-type: none"> <li>1.5.5 Business choices</li> <li>2.1.4 Planning</li> <li>2.4.2 Capacity utilisation</li> <li>3.3.1 Quantitative sales forecasting</li> <li>3.3.2 Investment appraisal</li> <li>3.5.2 Ratio analysis</li> <li>3.5.3 Human resources</li> <li>4.1.2 International trade and business growth</li> <li>4.2.3 Assessment of a country as a production location</li> </ul>
Interpret values of price and income elasticity of demand	<ul style="list-style-type: none"> <li>1.2.1 Demand</li> <li>1.2.2 Supply</li> <li>1.2.3 Markets</li> <li>1.2.4 Price elasticity of demand</li> <li>1.2.5 Income elasticity of demand</li> <li>1.3.2 Branding and promotion</li> <li>1.3.3 Pricing strategies</li> <li>2.2.1 Sales forecasting</li> <li>3.1.2 Theories of corporate strategy</li> <li>3.2.1 Growth</li> <li>4.3.1 Marketing</li> <li>4.3.2 Niche markets</li> </ul>



## 6. Quantitative skills

Quantitative skill	Application
<p>Use and interpret quantitative and non-quantitative information in order to make decisions</p>	<p>1.1.1 The market            1.1.2 Market research            1.1.3 Market positioning            1.2.3 Markets            1.2.4 Price elasticity of demand            1.2.5 Income elasticity of demand            1.3.5 Marketing strategy            2.1.4 Planning            2.2.1 Sales forecasting            2.2.2 Sales, revenue and costs            2.2.3 Break-even            2.2.4 Budgets            2.3.1 Profit            2.3.2 Liquidity            2.3.3 Business failure            2.5.1 Economic influences            3.1.2 Theories of corporate strategy            3.1.4 Impact of external influences            3.3.1 Quantitative sales forecasting            3.3.2 Investment appraisal            3.3.3 Decision trees            3.3.4 Decision trees            3.5.1 Interpretation of financial statements            3.5.2 Ratio analysis            3.5.3 Human resources            4.2.2 Assessment of a country as a market            4.2.3 Assessment of a country as a production location            4.2.5 Global competitiveness            4.3.1 Marketing            4.3.3 Cultural/social factors</p> <p>The use of stimulus material throughout the teaching and learning will enable students to interpret a wide range of business information. This information should be drawn from both qualitative and quantitative data.</p>
<p>Interpret, apply and analyse information in written, graphical and numerical forms</p>	<p>This skill can be developed throughout all of the sections listed in this table. The use of stimulus material throughout the teaching and learning will enable students to interpret a wide range of business information in written, graphical and numerical forms.</p>

## 7. Transferable skills

### 7.1 The need for 21st century skills

Higher education institutions, as well as employers, have consistently highlighted the need for students to develop a range of transferable skills to enable them to respond to the demands of undergraduate study and the world of work with confidence.

The Organisation for Economic Co-operation and Development (OECD) defines skills, or competencies, as 'the bundle of knowledge, attributes and capacities that can be learned and that enable individuals to successfully and consistently perform an activity or task and can be built upon and extended through learning.'<sup>1</sup>

The National Research Council's 21st century skills framework identifies three overarching skills domains: cognitive skills, interpersonal skills and intrapersonal skills. This section maps the new A level in Business to these skills, and outlines how transferable skills can be developed through the teaching and learning of business and how these skills are assessed (where applicable) through the relevant Assessment Objectives.

### 7.2 Cognitive skills

Cognitive skills relate to:

- Non-routine problem-solving: expert thinking, metacognition and creativity
- Systems thinking: decision-making, reasoning skills and critical thinking
- ICT literacy: the ability to access, manage, integrate, evaluate, construct and communicate using IT
- Collaborative problem-solving

	Cognitive skills		
	Assess	Teach	Evidence
<b>Non-routine problem-solving</b>			
Expert thinking	X	X	Examine information and data, recognise patterns and trends, and use and select the appropriate information and data. Understand the limitations of making recommendations and drawing conclusions. Diagnose/identify opportunities, problems and issues and propose solutions/make recommendations.

<sup>1</sup> OECD (2012), *Better Skills, Better Jobs, Better Lives (2012)*: <http://skills.oecd.org/documents/OECDskillsStrategyFINALENG.pdf>.

## 7. Transferable skills

Metacognition	X	X	Draw on knowledge and understanding to reflect on whether a problem solving strategy is working (or the likelihood of a strategy being effective) and make further recommendations as appropriate. Develop questioning skills and understand that 'there is no right answer' in problem-solving and strategic decision making.
Creativity	X	X	Generate new and innovative solutions to business issues and draw on a holistic understanding of business to integrate available information and data.
<b>Systems thinking</b>			
System thinking	X	X	Develop a holistic understanding of business in a range of contexts and understand how businesses are affected by, and respond to, internal and external influences. Develop a chain of reasoning of causes/consequences/costs/results, considering alternative explanations.
Decision making	X	X	Evaluate the consequences of individual actions for all parts of the internal and external environment. Analyse and evaluate the relative costs and benefits of potential actions and make recommendations as appropriate. Develop skills in strategic decision making and proposing evidence-based solutions.
Reasoning skills	X	X	Develop skills in systems analysis and systems evaluation, and abstract reasoning regarding how the different elements of a work process (such as production) interact.
Critical thinking	X	X	Develop a critical understanding of concepts and behaviour through understanding the extent to which individuals/organisations are affected by, and respond to, business issues, and the variables impacting on causes/consequences/costs/results. Use qualitative and quantitative evidence to make informed judgements about business issues and propose evidence-based solutions to these.
<b>ICT literacy</b>			
Access		X	Collect and/or retrieve information and data to form an evidence base from which recommendations and judgements can be made.
Manage		X	Develop skills through organising data;

## 7. Transferable skills

			the complexity of the data will support higher level thinking.
Integrate		X	Interpret, summarise, compare and contrast information and weigh up qualitative and quantitative evidence. Draw on similar or different forms of representation and media.
Evaluate		X	Reflect on information and data to make judgements about the quality, relevance, usefulness and efficiency of information. Use ICT to access a broader range of information and develop an understanding of the constraints of sources.
Construct		X	Use ICT to generate new knowledge by adapting, applying, representing and authoring information; for example, using spreadsheets for data manipulation or graphing tools for market research.
Communicate		X	Convey information and knowledge to various individuals and/or groups; develop skills in communicating through a range of techniques and media.
<b>Collaborative problem solving</b>			
Collaborative problem solving		X	Establish and maintain shared understanding and team organisation and take appropriate action, developed through in-class group work, competitions and business-based tasks.

### 7.3 Interpersonal skills

Interpersonal skills relate to:

- Communication: active listening, oral communication, written communication, assertive communication and non-verbal communication
- Relationship building: teamwork, trust, intercultural sensitivity, self-presentation, social influence and conflict resolution and negotiation

	Interpersonal skills		
	Assess	Teach	Evidence
<b>Communication</b>			
Active Listening		X	Engage with the viewpoints of others and understand any ambiguities in order to debate issues, especially with regards to questioning ideas and statements.
Oral communication		X	Develop skills in articulating arguments and debates, questioning concepts and providing answers to justify recommendations through group discussions and peer learning.
Written	X	X	Write coherently and structure responses

## 7. Transferable skills

communication			in assessments. Develop skills in how to write for different audiences.
Assertive communication	X	X	Develop skills in forming and sustaining an argument, how to present an argument (i.e. being assertive, not aggressive), presenting facts and opinions and drawing on an evidence base to support a position.
Non-verbal communication		X	Develop skills in reinforcing spoken communication through body language, gestures, tone and artefacts; for example, in-class presentations and group discussions.
<b>Relationship building</b>			
Teamwork		X	Develop an understanding of how to work with others and support team members through an enterprise activity, group work, joint research projects and business games.
Trust		X	Develop a belief in the integrity and reliability of another person offering a different perspective or behaviour in business through teamwork and group work.
Intercultural sensitivity	X	X	Develop an understanding of intercultural sensitivity, supported through business content; for example, in global marketing and the importance of understanding culture and customs.
Self-presentation		X	Influence the reactions and images people have of individuals and their ideas. Understand that managing these impressions encompass a wide range of behaviours designed to create a positive influence on work colleagues.
Social influence	X	X	Develop an understanding of current issues; for example, how things are changing, understanding different influences and the importance of this for individuals/organisations.
Conflict resolution and negotiation		X	Weigh up arguments and, through doing this, develop an understanding of how to resolve conflicts in groups (different opinions). Synthesise the best ideas from all viewpoints and perspectives, and use this to make recommendations/propose solutions.

## 7. Transferable skills

### 7.4 Intrapersonal skills

Intrapersonal skills relate to:

- **Adaptability:** the ability and willingness to cope with uncertain, new and rapidly changing conditions, handling work stress and adapting to different personalities, communication styles and cultures
- **Self-management and self-development:** work remotely in virtual terms, work autonomously, be self-motivating and self-monitoring, and the willingness and ability to acquire new information and skills related to work

	Intrapersonal skills		
	Assess	Teach	Evidence
<b>Adaptability</b>			
Ability and willingness to cope with uncertain, new and rapidly changing conditions		X	Develop the ability to adapt to changing situations, unexpected events and ambiguity; for example, understanding business failure, adapting to changing internal and external environments, and responding to current issues.
Handling work stress		X	Develop the ability to analyse the known and unknown as part of a process of making decisions/recommendations and coming to judgments. Direct efforts towards constructive solutions/recommendations.
Adapting to different personalities, communication styles and cultures		X	Understand that business can be studied from a range of perspectives: develop skills in being flexible and listening to the views of others. Understand the importance of tailoring behaviour to persuade, influence and work efficiently (e.g. different motivational theories); leading groups (management and leadership styles); adjusting behaviour to show respect for value and customs (corporate culture); and understand the implications of their own behaviour.
<b>Self-management and self-development</b>			
Work remotely, in virtual terms		X	Undertake independent learning and research, read around the subject, keep up-to-date with current issues, using the available tools to achieve this (i.e. range of media channels) and seek sources of help as appropriate (e.g. social media for peer support).
Work autonomously		X	Develop own way of working and manage homework and revision tasks with little or no supervision.

## 7. Transferable skills

Be self-motivating and self-monitoring		X	Through the course content A level students develop an understanding of setting goals/targets, devising plans, the importance of motivation and pro-actively, and performance strategies.
Willingness and ability to acquire new information and skills related to work		X	Undertake wider reading and independent research skills; for example, using the broad pre-released context. Be proactive in developing relevant skills by drawing on and applying subject knowledge to competitions and related courses, or the Extended Project Qualification.

# 8. Business and the Extended Project Qualification

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The Extended Project Qualification (EPQ) is a standalone qualification that can be taken alongside an A level. The EPQ supports the development of independent learning skills such as research, critical thinking, extended writing and project management. Students identify and agree a topic of their choice which may or may not be related to an A level subject they are already studying.

There is an opportunity for students to use the broad pre-released context for A level Paper 3 as a basis for their EPQ through completing an in-depth exploration of one aspect of the pre-released context. For example, when researching the market for snack foods, students might investigate an issue, such as obesity and the role of snack foods in this, for their EPQ. Using the pre-released context in this way supports students in deepening their understanding and widening their perspective of this particular context.

Alternatively, Business students may wish to choose a topic of interest from within the Business specification content to explore for their EPQ. For example, they may be interested in exploring a controversial business issue such as child labour, executive pay or advertising to children, or investigate an aspect of a particular business, such as how a business motivates its employees.

Centres should refer to the EPQ specifications for further guidance and contact the relevant awarding organisation if there are any questions regarding choice of topic for the EPQ.