



# A Level Business

## EXEMPLAR BOOKLET

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A level exemplar material

Issue 1

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# A level Business exemplar material

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# 1. Introduction

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## 1.1 About this booklet

This booklet has been produced to support teachers delivering the new A level Business specification. The booklet looks at questions from the Sample Assessment Materials. It shows real student responses to these questions and how examiners have applied the mark schemes to demonstrate how student responses would be marked.

It should be noted that responses were generated by school leavers in summer 2014 so may not have been completed in exam conditions. The sample of students had recently completed A2 examinations in Business Studies from different awarding bodies. As such, some students may not have studied all of the topics in the new A level specification. Students were also permitted to type their responses.

The short answer questions in Section A of Paper 1 and Paper 2 have not been included. For examples of student responses to short answer questions, please refer to the AS Business Exemplar Booklet. As Paper 3 has a pre-released context, this section includes student-style responses to these questions and how examiners have applied the mark schemes to demonstrate how student responses would be marked.

The responses are part of a small sample only and have not gone through the standardisation process. Therefore, all comments and marks are provided for guidance only.

## 1.2 How to use this booklet

Following each question you will find:

- Student or student-style responses to the question (one or two responses for each question)
- Examiner commentary on how the mark scheme has been applied and marks given
- Extracts from the mark scheme for levels based questions
- Comments relating to common errors for this style of question.

## 1.3 Further support

A range of materials are available to download from the Business page of the Pearson website to support you in planning and delivering the new specifications.

We will provide an extra set of sample papers for A level to support with formative assessment. In addition, we will be holding training to support you with marking mocks in your centre and further information will be provided on our website when available.

Our subject advisor team, led by Colin Leith, are also here to help. You can contact Colin with any questions in the following ways:

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**Subject page:** [Business subject page](#)

## 2. Paper 1: Marketing, people and global businesses

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This section includes student responses, marks and commentary for A level Paper 1 9BS0/01, *Marketing, people and global business*. A summary of the questions and marks for each response is provided in the table below.

Question	Response 1	Response 2
<b>Section A</b>		
1c (10)	3	6
1d (12)	6	7
1e (20)	6	6
<b>Section B</b>		
2c (10)	3	6
2d (12)	3	9
2e (20)	11	16

## Section A

### Question 1c

**Assess the possible benefits to manufacturers of video games consoles of the liberalisation of the Chinese market. (10)**

#### **Response 1**

A possible benefit to manufacturers is that there is the target market for the potential of high sales as in China there is a large population of young people. Furthermore, there are rising incomes in China, therefore there will be potential consumers who have enough disposable income to spend on games consoles, which can be expensive. Another potential benefit is that because there was a ban, the demand will be high as it is a product that they haven't been able to experience before. Research before also indicates that the sales could reach high, therefore being another benefit to the liberalisation of the Chinese market as it is a positive indication.

#### **Examiner's comment**

There are elements of knowledge and understanding in this response but the assessment is generic. The student has included lots of points but has not developed these into clear chains of reasoning.

This response therefore gained Level 2 and 3 marks.

#### **Response 2**

One of the main benefits that video game console manufacturers will benefit from will be the opportunity to sell to a new market that will have lots of potential customers due to the ever-expanding Chinese population. The new entry into the Chinese market will also mean that Sony will be the first manufacturer to enter the market and can therefore gain first mover advantage. The Chinese market is expected to be worth \$13 billion. Therefore Sony must ensure that, as this is a new market where people in China will not have experienced gaming consoles before that they get the product out there to the new customers who will be fully satisfied with their product and will not have many returns on the products. For example if Microsoft were to gain more customers than Sony in China then Sony would face a problem when gaining entry to the market as many customers will already have spent their money on the other video games consoles.

#### **Examiner's comment**

This response demonstrates knowledge and understanding and is supported by effective use of the business context with references to the "ever-expanding Chinese population" and the "first mover advantage". There is also analysis with the comments around being a new market. However, the assessment is not balanced and the response is one-sided. For example, the student could have considered aspects such as increased competition and profit margins being squeezed.

This response therefore gained Level 3 and 6 marks.

**Question 1d**

**Assess the likely impact of the proposed expansion of ASEAN on a business such as Sony. (12)**

**Response 1**

With a potential increase to Association of South East Asian Nations it means that there is the potential for more international free trade between member states and by increasing from its existing size of 10 countries to 16 as stated in extract C it shows there will be a large portion of the world countries joining it, and this means that trade will be very easy with little tariffs and liberalisation of markets in member countries, this means for businesses such as Sony that marketing and branding will be easier to complete and place and that the production and sale of their goods will be cheaper due to a reduction in quotas/taxes etc. as a result of the trading bloc, and while ASEAN already consists of 10 countries in itself, the 6 joining them; China, India, Australia, Japan, New Zealand and South Korea means that as stated the trading bloc will include over half of the world's population with a total GDP of all the countries involved totalling \$17.23 trillion.

This means that there will be very few if any restrictions between trade meaning products can be produced and sold to consumers in various locations with decreased costs meaning business will be more affordable and more consumers can be easily reached and with only a small mark up of 4.3% on Sony's products it means that consumers are likely to favour them over rival businesses and allow them to generate a lot more profit from sales simply due to the reduction in trade restriction once again as a result of the trading bloc and this will also potentially allow the combined GDP of the countries involved to rise, allowing for economic growth and potentially allow for a boom cycle to begin, in which time prices may rise due to increased demand once again being beneficial to a country such as Sony because it means they are able to generate additional income further improving their cash flow position.

Lastly, it is also beneficial to these companies as most of them are based in Japan or manufacture their goods in Japan meaning that with Japan joining the ASEAN it will be much cheaper and easier to ship these products meaning that prices could be lowered pleasing consumers and increasing their confidence which in the long term could cause a further increase to sales and therefore cash flow position and profits made by these companies such as Sony.

**Examiner's comment**

This is a lengthy response which shows accurate and thorough knowledge and understanding of the impact of trading blocs. Points are supported throughout the response by relevant and effective use of the context and analytical perspectives have been presented. However, the response is one-sided and does not consider potential drawbacks such as increased competition, demand becoming more price elastic and the relative importance of a low unit cost.

This response therefore gained Level 3 and 6 marks.



**Response 2**

One likely impact of the expansion of ASEAN on Sony would be that it would reduce the number of tariffs that Sony would have to pay therefore meaning Sony's distribution costs would end up being lower in a market where large sales are likely to be produced. The idea of the trading bloc will also mean that a larger more widespread market may be created and therefore it means a \$17.23 trillion market will be created for Sony to take a percentage of. By doing so this will mean Sony's margins may also be impacted less due to the reducing of costs. However one negative effect of the new ASEAN could be that new businesses are able to trade more freely than they previously have done before.

Therefore this may mean that more competition will arise from places, which previously had never been a threat to major organisations such as Sony. The liberalisation of the market may also mean that black market products will now re-emerge and products will be fakes however sold as genuine and therefore may end up affecting Sony's products and reputation when being sold to customers who may have no idea what they are buying and they therefore may get the wrong impression about Sony's products.

**Examiner's comment**

This is an example of a shorter and more focused response. There is an attempt to present an assessment but as one point is well developed the response does not show the significance of competing arguments which is required for a Level 4 response. The response is supported throughout by relevant and effective use of the context and there are chains of reasoning.

This response therefore gained Level 3 and 7 marks.

**Question 1e**

**Evaluate the importance of branding in helping businesses such as Sony to enter the Chinese games console market. (20)**

**Response 1**

The Chinese market is a particularly difficult place to enter even with a brand. Sony is a well-known brand across the world. Therefore people are more aware of them and what they stand for and the products, which they sell. This enables Sony to gain an advantage over competitors as customers may already know about their products and know which they are going to buy from them. The Chinese games console market is likely to be a difficult place for any company to enter. China has a number of technology companies who are all competing against each other and can produce products and distribute them a lot quicker than bigger companies are able to due to the physical number of products they are selling. However by having a brand behind them people may only want to go and choose only Sony's products. Therefore when they go out to purchase the products they will be looking for only specific products. This means that it benefits Sony to have the knowledge that the customers are aware of their products and can also mean they need to spend less on advertising of their products, as customers will already have knowledge about Sony.

**Examiner's comments**

This response has elements of knowledge and understanding applied to the business example. The student attempts to address the question and has included arguments and chains of reasoning but these are incomplete – the question is addressed with a series of analytical statements, rather than analysis.

This response therefore gained Level 2 and 6 marks.

The response could be improved by explaining 'why' in each case. For example: "*However, by having a brand behind them people may only want to choose Sony products because the brand is recognised as successful and strong in relation to technology products.*"

## Response 2

Without a doubt I think that branding is much more important than the product. The main reason branding is probably so important for some companies are because it takes a long time to build a brand up and to build up brand loyalty. Brands help companies to make themselves unique from the competitor. In a heavily saturated market SONY need to brand themselves so they can be easily distinguished from the competition e.g. Nintendo. If this is done successfully it adds value to the product and therefore makes the price inelastic. Additionally if a customer is willing to pay above the odds for a product they are brand loyal and are likely to repurchase updated versions and buy additional products from the company. The Chinese also like to purchase from a brand with a long history which SONY has, this was proven by Chanel who have the historic story of Coco Chanel and the brand has been incredibly successful in the country as the Chinese customer like the history of the brand and feel like they can trust it more. Therefore the history and brand recognition, which the company has invested heavily in over many years, proves to be more important than the products. And the brand is a large asset to the company. Many believe that a good quality product is built by a company and purchased by a consumer in exchange for money and the brand is built through the consumer's perceptions, expectations, and experiences. Additionally the more emotional involvement the customer has with the brand the more likely that they stay brand loyal. Again the stronger the brand image the more loyal the customer stays. High end luxury goods are able to sell at higher prices and able to have inelastic prices due to the reputation and perception of the brand. For example if you was wearing a Chanel bag people would instantly recognise the design and understand the quality and appreciate the bag however the same can't be said for a Tesco one, even if both products look the same implying that a product can be copied but a brand cant.

But some will say you need a successful and good quality product in order to build a brand. A brand can only get you so far if your product is poor as people will start to go to competitors and complain about the product regardless of the brand. If SONY was to start producing cheaper products the customer has plenty of competition with both strong branding and a strong product they can reply with SONY. As customer nowadays are brand conscious not brand loyal. This makes it a harder job for companies as they cannot just rely on one they have to have both a strong product and strong brand.

### Examiner's comments

At first glance this is a strong response in context about branding. There are elements of knowledge and understanding, and chains of reasoning are presented. However, the student has not directly responded to the question which is asking them to evaluate the importance of branding for businesses **entering an international market**. Students must attempt to address the question in Level 2 and show an understanding of the question being asked to reach Level 3. A comparison or judgement has not been attempted so the response is a low Level 2. This response therefore gained Level 2 and 6 marks.

## Section B

### Question 2c

**Assess the possible factors that may have led to the Chinese government imposing a tariff on imported furniture. (10)**

#### ***Response 1***

The Chinese government will be worried about people not spending money into the Chinese economy and therefore the state is losing money. The new ban will mean that consumers will be more or less forced to purchase furniture from within the country and if they don't then the price they pay is likely to be a lot higher than furniture bought within China. The people of China say that the quality of the Chinese furniture is the reason as to why they are not buying from Chinese companies however the western goods are much higher standard and are worth paying extra. The Chinese government may have noticed a fall in income in a certain sector and therefore felt that government intervention was needed to enable the market to grow and more money to be made within China.

#### **Examiner's comment**

This response lacks balance and only one factor – not buying from Chinese companies – has been considered. This has limited the response and chains of reasoning are presented but are incomplete. There are elements of knowledge and understanding but there are some inaccuracies; for example, the reference to the imposition of a tariff as "*the new ban*".

This response therefore gained Level 2 and 3 marks.

## Response 2

One potential factor which may have nudged the Chinese government to add a 10% tariff on imported furniture is the fact that as stated in Extract E, China has a high demand for imported furniture and this had increased by more than 25% during 2012 indicating that this pattern was unlikely to change particularly as consumers have concerns about quality and therefore do not wish to buy domestically produced furniture, meaning that the countries GDP level would fall and that Chinese furniture business would be suffering a loss of business causing decline in economic growth rates which is why a 10% tariff may help to shift a change to more domestically produced goods to be purchased because even 10% of some furniture items can be very expensive, e.g. if a sofa was £3,000 which is around the cost of an average sofa, that would add an extra £300 on its own to the cost which would not be cheap which should help with the intention of people buying more domestically produced goods.

Additionally, a second factor that could have led to this imposed tariff is the Vi-Spring company based in the UK that only manufacture quality beds and furniture by hand producing such products such as "The Monarch" which costs a cool £80,000 and has many famous owners including David Beckham while Vi-Spring's market focus has been in the USA and the UK however it has now started to sell an increasing number of beds to customers in countries with high economic growth rates, such as China and India meaning that more products will be exported to this location indicating the Chinese government would have to intervene for the best interest of their own economy, and this maybe successful as 10% tariff on such a luxury/expensive bed would add an extra £8,000 to the cost of the product which is not easily acquirable by any means so it will once again encourage people to buy products produced domestically, lowering the problem.

### Examiner's comment

This response considers more than one factor and there is an attempt to assess both factors. However, it does not show awareness of competing arguments so the assessment is not balanced. The student has appropriately referenced the information from the extract and used the business context effectively.

This response therefore gained Level 3 and 6 marks.

Both of the responses focused on using tariffs to protect domestic manufacturers. To provide balance in responses students could have considered how effective the tariff would be (such as the tariff might not work because Chinese consumers are more concerned about quality), protectionism by other nations on Chinese exports in response and that it might not encourage Chinese manufacturers to increase efficiency or quality.

To reach Level 4, assessment must be balanced, wide ranging and well contextualised, with an awareness of competing arguments or factors leading to supported judgements.

**Question 2d**

**Assess the importance to a business such as Vi-Spring of having highly-skilled and motivated craftsmen. (12)**

**Response 1**

They need highly skilled workers to maintain their reputation for high quality goods with an emphasis on supplying goods of bespoke materials. They have a very niche market but the product does depend on how it is manufactured and therefore requires a skilled craftsman on the production line. Highly skilled craftsmen will also take pride in their work thus producing quality items.

**Examiner's comment**

There are no analytical perspectives in this response. Chains of reasoning are presented but the assertions are incomplete and the assessment is generic. This response therefore gained Level 2 and 3 marks.

**Response 2**

With product lines like The Monarch selling at £80 000, the customers buying this are expecting high quality and this can only be delivered by highly skilled craftsmen. The highly skilled craftsmen is what sets Vi-Spring apart and allows them to charge extremely high prices and operate in a niche market. The company wouldn't be able to have a craftsman with little experience as the product would suffer, the customers wouldn't be happy, sales would fall etc. The use of highly skilled craftsman adds value to the brand and enables competitive and unique branding and marketing. Features like 'British Shetland Wool' and 'Silk and Gold' give the perception of high quality. Additionally motivated craftsmen means high productivity and more units per hour possibly, than unmotivated staff. However this means more money to employ the highly skilled craftsmen this will be considerably higher than minimum wage. And if any further staff are needed recruitment may be hard and training will be very expensive and time consuming.

**Examiner's comment**

This response is coherent and has logical chains of reasoning. The response is supported throughout by relevant and effective use of the business context, with references to the high-quality products. The student's attempts to provide counterbalance to show some awareness of competing arguments but they have not included a supported judgement. The response does not explain why the company needs to pay more than minimum wage for example. The student has done just enough to reach Level 4.

This response therefore gained bottom of Level 4 and 9 marks.

## Question 2e

**(e) Using the data in Extract F, evaluate the likely impact of the changing value of the pound (£) on an export business such as Vi-Spring. (20)**

### **Response 1**

The value of different currencies is always changing in comparison with another, as a result of the supply and demand for differing currencies and because of this it means that some markets can become very niche however in this particular case, the pound is quite a strong currency in comparison to currencies used in many other countries and therefore as a result the value of the pound tends to raise against the value of other countries meaning that the pound carries more value.

This can be seen as a good thing as it means goods like raw materials may be more affordable for Vi-spring to import however with an increasing value of the pound as shown in extract F where every currency has gone above the 100% mark it not only means this but also that exports from the UK to other countries will become more expensive for the people in the country that is choosing to import them.

As a result it may mean that Vi-spring may actually suffer a loss of business due to these increasing costs to foreigners of importing their goods, which in this case would be exceptionally bad for Vi-spring as while they are manufacturing in the UK for UK residents, they had stated their main market also included the USA where the dollar is worth less pounds then it was a few years ago, and additionally, Vi-spring had stated plans to now begin to sell to China and India.

These plans may further cause issues for vi-spring as China would now need to spend more yen due to a value increase in the plan while also having the 10% tariff locally on the furniture which will make these luxury furniture products so much more expensive than they already are meaning vi-spring would sell less produce meaning that perhaps some staff would have to be made redundant to remain competitive.

Lastly, while India itself does not have these tariffs it does appear to have a volatile currency, consistently raising and falling in value against the pound and this means sales levels in the country may vary as the value changes from people trying to obtain the best deal possible available to them so this could also leave a negative impact on Vi-spring due to inconsistencies in its cash flow from fluctuating levels of sales.

### **Examiner's comment**

This question includes marks for quantitative skills so students must use the data in Extract F within their response to access Levels 3 and 4. This response is lacking in precise use of the data although it does attempt to interpret the strength of the pound. There is just enough interpretation here to achieve Level 3.

There are developed chains of reasoning and strong analysis, with well-developed arguments. The student has introduced qualitative and quantitative information in an attempt to support their points.

This response therefore gained Level 3 and 11 marks.

**Response 2**

It clearly shows on the graph that the pound is increasing. Although this will mean that import will be cheap, exports will be expensive. This will mean that demand will decrease especially if the product is elastic. This means that the customers are sensitive to price changes and will stop buying the product with any change in price. However I think the type of products Vi-Spring sell are niche and unusual, they have no competition so the company is in a few good place. If they have no competition they own the entire market share and there is no competitor to compete against. This could mean that Vi-Spring won't be affected by the strengthening of the pound because if people want that unique product the only people they can go to is Vi-Spring. Additionally the type of people that some of the models are marketed too, e.g. The Monarch which retails for £80,000, is targeted to people who have very large disposable incomes and if they are willing to spend that much on a bed in the first place they won't mind paying a bit more. In comparison to the £80,000 the pound hasn't appreciated that much so the price may not be that much more expensive that it was originally, especially in the USA where it is only about 8%. So the target market of Vi-Spring is definitely inelastic to price changes. In fact I think that an increase in price could help the brand image even more and they company could use it as a type of premium pricing so the strengthening of the pound might actually help the company market themselves as even more exclusive and unique.

But if Vi-Spring build up their brand more in the UK and solely deal with domestic sales they could stop taking the risk that comes with exchange rates and fluctuations. They will only be hugely affected if the majority of their sales come from outside the UK, the only way around this would be to fix the exchange rate to their customers therefore reducing the risk and becoming more stable. But if they were to maybe introduce some cheaper models, not so that the brand image becomes less unique but maybe some £10,000 models they would be able to sell more units in the UK, they would build up more brand recognition and be more known. They could also use the marketing mix to help maybe with distribution e.g. they could sell to shops in a foreign country but sell them for a fixed price therefore not being affected by the exchange rates or improve distribution in the UK.

**Examiner's comment**

This response clearly references the data in Extract F and strong interpretation of the graph is evidenced in the reference to the index number: "*In comparison to the £80,000 the pound hasn't appreciated that much so the price may not be that much more expensive that it was originally, especially in the USA where it is only about 8%*". The use of quantitative data and references to PED are imprecise but overall the information is used to support the student's argument.

The response has well-developed and logical chains of reasoning, and there are balanced comparisons.

This response therefore gained Level 4 and 16 marks.

To improve the response further, the student could have included an effective conclusion; for example, "*The extent to which the changing value of the pound impacts on an export business like Vi-Spring depends on the degree to which Vi-Spring relies on overseas markets for sales.*"



### 3. Paper 2: Business activities, decisions and strategy

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This section includes student responses, marks and commentary for A level Paper 2 9BS0/02, *Business activities, decisions and strategy*. A summary of the questions and marks for each response is provided in the table below.

Question	Response 1	Response 2
<b>Section A</b>		
1c (10)	4	6
1d (12)	4	9
1e (20)	6	11
<b>Section B</b>		
2c (10)	3	4
2d (12)	4	5
2e (20)	10	20

## Section A

### Question 1c

Using the data in Extract C, assess the usefulness of the forecast for a business such as Nokia. (10)

#### *Response 1*

Forecasts allow for predictions of future trends or patterns to be identified in many things, such as a cash flow in one example. In this particular case, the forecast predicts the amount of smartphone users by year following on from 2014 where past trends can be identified - which is why the measurements may be considered accurate.

This information can allow companies such as Nokia to prepare for an increase to the number of smartphone users - allowing them to produce more stock and be ready for an increase in consumer demand as because of this forecast they are able to prepare marketing campaigns and etc. to attract new customers to their phones as opposed to their competitors which is why this forecast helps as it allows them to see % changes and the actual amount of people that may become their potential market/audience.

This means that because of the forecast, Nokia may be able to gain an edge in the market over their competitors by being prepared, however forecasts are only forecasts and therefore in reality what actually happens may not be even remotely similar to the predictions and therefore it is important for the numbers to be accurate when creating a prediction as it is already a volatile piece of information and thus could cause more harm than good if a different change does happen than the one that is expected.

#### **Examiner's comment**

To access Levels 3 and 4 for this question, students must demonstrate quantitative skills to support their judgements. The response does not interpret the data in Extract C so cannot go beyond Level 2.

The response is applied to the business context and there are chains of reasoning present.

This response therefore gained Level 2 and 4 marks.

When a question asks students to use the data in the extract, they must do this to access Levels 3 and 4. In this question, students could have demonstrated QS9 "interpret, apply and analyse information in written, graphical and numerical forms" through analysing what the data in the graph is showing (between 2012 and 2017 the percentage of the world population using a phone is projected to increase but the rate of increase is projected to fall) and why the statistics in the forecast might be unreliable (it does not account for statistical variables such as percentage change in income or percentage changes in mobile phone usage).

**Response 2**

The usefulness of the forecast for a business such as Nokia is of a great deal because it allows them to see current patterns and trends within the industry in order for them to adapt their business to suit this. The data in extract A shows that there has been an overall growth of smart phone users, which is useful for businesses such as Nokia because it means that they can use this data to develop their products, which is likely to be to offer more smartphones, as there are more users it means more demand for this product, which can be seen from the forecast, making it highly useful. However, there is a lot of data that can't be found in the forecast, which makes it less useful for businesses, as there is vital information missing that could help them develop their product. This includes data such as age and gender of smartphone users, which would be useful to know, as then smartphones could be specifically designed to suit this type of customer, leading to an increase in sales from businesses such as Nokia.

**Examiner's comment**

This student attempts to present an assessment of the quantitative and qualitative information, and considers the limitations of the forecast. The student has done just enough to reach Level 3 with the interpretation of the data but the interpretation of "*an overall growth of smart phone users*" does not provide enough depth to access the highest level. The response is balanced, includes relevant and effective use of the context and there are chains of reasoning.

This response therefore gained Level 3 and 6 marks.

**Question 1d**

**Assess why Microsoft might decide to take over another business such as Nokia. (12)**

**Response 1**

Takeovers can happen for many reasons, one of which may be that Microsoft wished to expand its business and therefore the phone market was their target. By buying out Nokia they gained Nokia's customer base and therefore have immediate customers. Microsoft may also feel that by buying out Nokia it is sending out a message to its rivals that they will be competing against them. They could also say that Microsoft feels their software will work better with the Nokia handsets and therefore this would be the reason they chose them. Microsoft also gains staff who may be extremely knowledgeable about products which could be new to the people at Microsoft and they may also only be novices when it comes to the Nokia devices themselves.

**Examiner's comment**

This response shows elements of knowledge and understanding which are applied to the business context. However, the analysis is fairly simplistic and the chains of reasoning are not developed.

This response therefore gained Level 2 and 4 marks.

**Response 2**

Different companies specialise in making different kinds of products and therefore when entering new markets, existing companies may not have an edge or a competitive side to bring to the market. This can be considered the case with Microsoft and the smartphone industry as they have provided software to phone developers to include with hardware however have not produced their own devices before.

Because of the lack of expertise Microsoft employees have with smartphone hardware it means that essential expert knowledge can be acquired by buying a business such as Nokia and also means that the software used on the phones can now be designed and take considerations for the hardware on-board meaning that the smartphone products themselves can be more efficient by having faster times for booting and etc. as a result of hardware and software changes.

Additionally, while at first it will be bringing a huge costs to Microsoft with the agreed purchasing cost and the money invested into Nokia on acquisition, it may mean that in the future this gives the windows phones produced by Nokia a competitive edge in a very demanding market that it may need to gain additional market share and this in turn may allow Microsoft to begin generating additional profits, granting them the ability to make a return on investment and showing exactly why one company may gain possession of another.

**Examiner's comment**

This response demonstrates thorough knowledge and understanding, and the student has supported their points with effective use of the business context. The chains of reasoning are coherent and the answer is balanced and well-contextualised.

This response therefore gained Level 4 and 9 marks.

**Question 1e**

**Evaluate the importance of quality management to a business such as Samsung. (20)**

***Response 1***

Samsung is known for its mobile phones therefore in the highly competitive market they operate in, any sort of problem with quality could mean a loss of sales. Therefore if they ensure every product that they sell is of the highest quality then their customers will be satisfied 100% of the time. By having a quality management system in place it ensures that the customers get what they want and the products live up to what people expect from a company like Samsung. By ensuring quality is provided on each of their products it may encourage its customers to go out and buy more of its products and therefore this could mean that the customers spend a lot more with Samsung and in the long run Samsung will benefit from the additional quality checks.

**Examiner's comment**

This response has elements of application and the student attempts to answer the question. Arguments are presented but these are generic and the response does not have balance.

This response therefore gained Level 2 and 6 marks.

**Response 2**

Quality is often a large concern to many consumers when choosing which products to purchase when browsing supermarkets or specialist stores and therefore quality management is likely to play a big part in what a fair portion of any countries population are willing to purchase particular products.

One company that has reflected this and the importance of quality management is Samsung themselves, and they promote this idea of having quality by demonstrating what their products are truly made of, and when one customer told the company the back cover was cheaper compared to the demo models previously shown, all 100,000 of them were scrapped and replaced.

This shows that quality management was important to Samsung because they have a big brand name across the globe and therefore they will have to respond to consumer concerns and expectations in order to retain the consumer confidence which has allowed them to become the big success that they are today in the modern market.

This idea is further represented by the fact that Samsung manufactured 400,000,000 phones in 2012 with employees working a cell production method while allowing employees to create cost saving ideas and giving part of the cost saved back to said employee as a bonus, encouraging the staff to also maintain this image while finding better methods to completing jobs.

Lastly, there are computers located throughout assembly facilities that can retrieve real-time manufacturing data from any Samsung facility in the world, this means that quality can be checked at all locations worldwide where the phones are produced - once again allowing for close control and management.

Overall in conclusion it can be said that quality management is a deeply important factor to Samsung, as over the years it has allowed them to build a brand image for themselves across the globe with growing success with each new product released having more features than the last, once again cosmetic and with the actual hardware and software and this comes through co-operation of employees and the staff listening to customers concerns which is what allows Samsung to retain confidence and produce these quality products consumers love which is then once again showing just how important quality management is to Samsung in order for them to function and keep the large lead which they have in the mobile phone industry over main rivals apple and Nokia as depicted in Extract B.

**Examiner's comment**

This response is supported throughout by relevant and effective use of the business context and there are chains of reasoning which demonstrate the student has understood the question. However, the response is descriptive rather than analytical in places. The argument is one-sided so there is no awareness of the validity or significance of competing arguments.

This response therefore gained Level 3 and 11 marks.

To reach Level 4 students must demonstrate awareness of the validity and significance of competing arguments. In this response the student could have considered factors other than quality which are important in the mobile phone market. This could lead to balanced comparisons and an effective conclusion which proposes which factor is most important for Samsung.

## Section B

### Question 2c

**Assess the importance of technological change to a business such as Grimsby Fish. (10)**

#### **Response 1**

The main importance of technological change to the company will be that Grimsby Fish will remain competitive. The new factory will probably include new technologies that maybe rivals currently use. New technology also means Grimsby Fish could become more efficient, maybe increase production which leads to an increase in units to sell and ultimately if they market the company well to increase brand awareness more sales. If the new technology adapted in the new factory improves efficiency, unit cost could decrease although the initial investment is quite a lot of money. As well as expensive initial cost there may be a cost implication to training the workers on the new machinery/technology but this should pay off in the long term.

#### **Examiner's comment**

There are elements of knowledge and understanding in this response. Chains of reasoning are presented but they are incomplete, making the assessment generic. There is no relevant application to the business example which limits the response but the student has done just enough to reach the bottom of Level 2.

This response therefore gained Level 2 and 3 marks.

#### **Response 2**

There is great importance of technological change to a business such as Grimsby Fish because it allows for growth and for the business to have a chance to develop. By technological enhancements it means that the business is able to manufacture more products than they could have before they had the access to machinery in a factory, allowing them to mass produce their products. As said in extract H, the opening of the factory, means they will be able to cater for the demands from their new contract. This shows that it is highly important for them to use these technological changes so they can create an increased amount of products and then profit.

#### **Examiner's comment**

This response lacks any depth of analysis and the assessment is generic. However, unlike response 1, the student has referenced the opening of the new factory so has applied their answer to the business example.

This response therefore gained Level 2 and 4 marks.

**Question 2d**

**Assess the importance of an appreciation of the pound (£) to the total costs of a business such as Benson's Foods. (12)**

**Response 1**

It's important as it means that imports of fish will be cheaper for businesses such as Benson's. This means that they will be buying the products at a cheaper price and furthermore, that they can sell on the fish at a greater price and receive a greater profit. This is important for the business because they will become more profitable. Alternatively, they could lower their prices that they sell the product of fish on to consumers at which makes the business more competitive. This again will make them more profitable.

**Examiner's comment**

This response has elements of knowledge and understanding in context but makes general assertions such as "*they can sell on the fish at a greater price and receive a greater profit*" which could be developed to explore *why* Benson's would increase their prices.

This response therefore gained Level 2 and 4 marks.

**Response 2**

Benson's Food's reliance on the exchange rate incurs a level of risk the company cannot control. If the value of the pound increases it means they are able to import more fish at a cheaper price, however if the pound plummets meaning the pound is less valuable Benson's Food have to pay over the odds to the importers for them to continue production. Additionally the appreciation of the pound affects the profit margins of the company. If the price of the pound stays reasonable or raises it will allow the company to keep their prices at a competitive price in comparison to other competitors, their profit margin increases. But they then have a problem if the price of the pound decreases. Unfortunately for a company to rely on a factor that is out of their hands is an extremely risky situation to put themselves in and makes them vulnerable to competition. But the company could overcome this risk by fixing the exchange rate for a future date.

**Examiner's comment**

Analytical perspectives are presented in this response but the student has a tendency to deviate from the question; for example, "*if the pound plummets meaning the pound is less valuable Benson's Food have to pay over the odds to the importers for them to continue production*". The student has done just enough to reach Level 3 but could do more to develop their chains of reasoning and consider competing arguments.

This response therefore gained Level 3 and 5 marks.



### Question 2e

**Evaluate the environmental and ethical factors that might affect the success of a business such as Young's Seafood Limited. (20)**

#### **Response 1**

Environmental factors that might affect the success of a business such as Young's Seafood Limited include the amount of pollution that is omitted into the air, through the transportation of these products. This is because fish is often sourced from other countries and has to travel a long way to arrive in the UK, which causes pollution in the atmosphere, carrying a negative environmental impact. The success of the business is therefore affected because people will not support the business due to the environmental damage that it is causing. To overcome this factor many companies use environmentally friendly forms of transportation, which are less harmful to the environment. However, a business can be affected if they don't transport their goods in a way that doesn't damage the environment because customers will not support them in buying their products. Furthermore, there are organisations such as Greenpeace who raise awareness of the issues that businesses cause to the environment, making huge impact on the success of a business, as customers are often loss, causing the business to make less profit. Another environmental factor is species decline as businesses such as Young's Seafood Limited offer 2,000 different products as stated in extract E, which shows the diverse variety of fish that they must catch. This can lead to a certain type of fish becoming extinct, so the businesses success will be affected as they can no longer offer that product. This also leads to less customer interest as the business may no longer cater for their needs or offer products that are of high demand.

An ethical factor that may affect the success of a business such as Young's Seafood Limited is that if the product is not sustainable, especially if it is a product such as fish, customers would want it to be sourced from a reliable place and to be sustainable. Ethical factors cause a business to lose customers, which leads to less profit being generated. This is because ethics concern the customer and they want to know that the business practices are fair. One example of an ethical factor is fair trade, which could affect the success of a business because customers would want to know that everyone in the process is treated fairly and if this is not the case then they may choose not to buy from that particular business or buy a particular product due to it not being fairly traded.

#### **Examiner's comment**

This response is supported by relevant use of the business context and there are developed chains of reasoning. However, there is no balance in the response so the answer is one-sided and lacks evaluative comments.

This response therefore gained a Level 3 and 10 marks.

## Response 2

Environmental factors may be extremely important in allowing Young's to be successful. For instance, if rivers are polluted this could result in salmon being unable to re-produce. As a result of this, the supply of salmon will fall which will push up the price of the fish on world markets due excess demand. This will increase the unit costs faced by Young's for its salmon fillets in white wine sauce. This will squeeze the profit margin for Young's salmon products unless it is able to pass on this cost increase to its customers through charging a higher price. Whilst this might be possible with supermarkets such as Waitrose, other budget supermarkets such as Asda are likely to face price elastic demand. Therefore, Young's may have to accept a lower profit margin on this product. With sales likely to stay the same, this may result in lower total profits. Therefore, Young's may decide to switch production away from salmon to products which involve salt water fish instead such as Haddock.

However, this should not diminish the likely success of Young's since all other fish processors will face the same environmental factors, since fish is a commodity that is purchased at fish markets across the world. Thus, Young's will be in exactly the same position in facing rising costs like Birdseye. Thus, the impact on Young's is really dependent on it being able to offset the rising costs better than its rivals who compete in a similar market segment.

Ethical factors may also play a role in allowing Young's to be successful. For instance, Tuna that is caught in nets which are not friendly to Dolphins could result in a poor reputation for Young's seafood. This may result in negative media publicity from pressure groups such as Greenpeace. This poor publicity could negatively impact on the brand of Young's resulting in top-end retailers such as Marks and Spencer's refusing to stock their products. This will limit the potential customer base that Young's can sell to resulting in lower revenue streams and lower profits. It also means that Young's will not be able to access market segments where price is less important in the consumers' decision to buy forcing it to continue to compete alongside other budget frozen fish manufacturers such as Birdseye. This could be problematic in the long-term if Young's try and reposition into market segments where demand is income elastic.

However, Young's is a mass market frozen fish manufacturer and its main market may be supermarkets who have a target of low to middle income consumers. Therefore, it may well be that these supermarkets are not so bothered about how the fish are caught but are more likely to consider whether or not the fish product can sold at a competitive price. Dolphin friendly line-caught Tuna is a much more expensive method of catching fish since it lacks the economies of scale of nets. Therefore, adopting a more ethical approach could result in substantial increases in unit costs which cannot be passed on, eroding Young's profit margin.

In conclusion, the impact on Young's from environmental and ethical factors is unclear. It depends on the part of the market that it intends to operate in and the degree to which these factors will impact on the business. As a frozen fish processor, it is likely that the budget supermarkets it supplies will be primarily focused on lower prices for its frozen produce, thus limiting the impact of ethical factors on Young's. Environmental factors however will impact all fish processors and the extent to which these factors impact Young's depends on the degree it can out-manoeuvre these rival businesses in limiting these impacts e.g. look for cost savings elsewhere or switch to cheaper, but similar tasting species of fish.

**Examiner's comment**

This is an excellent response. The student has demonstrated accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the context. Arguments are fully developed and the information in the response supports the judgements made. The response demonstrates full awareness of competing arguments and finishes with an effective conclusion.

This response therefore gained Level 4 and the full 20 marks.

## Paper 3: Investigating business in a competitive environment

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This section includes student-style responses, marks and commentary for A level Paper 3 9BS0/03, *Investigating business in a competitive environment*. A summary of the questions and marks for each response is provided in the table below.

Question	Response 1	Response 2
<b>Section A</b>		
1a (8)	3	6
1b (10)	4	8
1c (12)	5	12
1d (20)	8	20
<b>Section B</b>		
2a (8)	5	8
2b (10)	5	10
2c (12)	4	10
2d (20)	8	18

## Section A

### Question 1a

**Assess two implications for UK crisp manufacturers of the need for 'constant promotional activity' (Extract A). (8)**

#### ***Response 1***

'Constant promotional activity' means that businesses have to keep advertising to stay ahead of the competition.

This is good for the business as it means that customers will see the adverts and want to buy the products. It will cost a lot of money, for example TV and radio adverts but this means that customers will recognise the products when they see them on the shelves. This is the case with Walkers and their adverts which feature Gary Lineker - they have been really successful.

Constantly advertising the products is expensive, but this doesn't matter that much to a business such as Walkers because they have large funds available to pay for these adverts. It also means that smaller businesses like Burts can also promote their products and get them well known to customers who haven't heard of them before. If UK crisp sales are predicted to reach £1bn, this could provide plenty of money for crisp businesses to afford the required promotional activity.

#### **Examiner's comment**

This response is applied accurately to the business context and has chains of reasoning although these are generic assertions. There is no balance in this response so the student does not show an awareness of competing arguments.

The question asks students to assess **two** implications so the student must do this to reach Level 3.

This response therefore gained Level 2 and 3 marks.

**Response 2**

'Constant promotional activity' suggests that crisp businesses will need to undertake continuous marketing in order to succeed. This could take the form of advertising, or sales promotion, but in a competitive consumer market dominated by a multinational like Walkers/Pepsico this is likely to be promotion in a wide range of channels.

One implication of this constant promotional activity is the financial cost. 'Constant' suggests campaigns that are renewed and re-started in an effort to raise the brand awareness of Burts in relation to competitors such as Kettle and Walkers. If these costs remain high due to the need for expensive promotional media such as TV and printed media, then profit margins are likely to be reduced. This means that even if the brand is strong, its value could be eroded by the costs of maintaining this constant activity.

This need may only be a perception of smaller companies who are trying to compete directly with Walkers. It seems that Perry Court Farms, as a new relatively small entrant are likely to have the means or the ambition to promote itself constantly. They will aim to spread within their fruit crisp niche via word of mouth and getting their products distributed, rather than expensive promotional activity. In contrast, larger businesses such as Walkers could benefit from the need for constant promotion - it acts as a barrier to entry and reduces the price elasticity of demand for their product, at the same time protecting their market share in the traditional crisp market and encouraging new entrants to compete in smaller scale niches.

**Examiner's comment**

This response clearly assesses **two** implications – financial cost and barriers to entry. The chains of reasoning are logical, the assessment is balanced and the response is well-contextualised, with the student using the context effectively.

To improve the response the student could have assessed further their point about barriers to entry, perhaps by providing a supported judgement.

This response therefore gained Level 3 and 6 marks.

8-mark assess questions require students to assess two factors which must be balanced for a Level 3 response. Balance could be in the form of analytical points for and against each factor. For example, a student could: identify and explain factor X and analyse its relevant importance (why and why not important); and identify and explain factor Y and analyse its relevant importance (why and why not important).

### Question 1b

**Assess the consequences for UK crisp manufacturers of changing consumer preferences towards healthier snack foods. (10)**

#### **Response 1**

Changing consumer preferences means that they will probably want different flavours of crisps all the time and this means that the businesses have to keep adapting. For example, Walkers often bring out new limited-edition flavours at different times of the year or for special occasions like the Queen's Jubilee.

These changing consumer preferences mean that new businesses such as Kettle Chips can enter the market and make a profit. Before customers were used to traditional flavours in small, individual packets, now they are more interested in larger party-sized bags in exotic flavours. These products might not be very healthy, but they are still popular and demand is high.

All these different preferences gives crisp businesses the chance to carry out more market research such as questionnaires and surveys. Customers will be able to tell the business their preferences in terms of flavours and ingredients and the businesses can then use this data to come up with new ideas in a more market orientated approach.

Changing preferences is definitely a good idea for crisp businesses because it provides an opportunity for them to attract new customers and find out more about their existing customers too.

#### **Examiner's comment**

This student has not fully got to grips with the question. The response has elements of knowledge and understanding which are applied to the business context; for example, "*Walkers often bring out new limited-edition flavours at different times of year or for special occasions like the Queen's Jubilee*". However, the chains of reasoning are incomplete and the answer is not focused on the consequences for UK crisp manufacturers.

This response therefore gained Level 2 and 4 marks.

Students should try and use outside evidence from their research when responding to the questions in Paper 3 and not just rely on the evidence provided. They will not be awarded separate marks for this but completing their own research will support students in writing wide-ranging and well-contextualised responses which show an awareness of competing arguments. This is required to reach Level 4.

**Response 2**

Changing consumer preferences suggests that consumers of crisps demand different aspects of the Product part of the marketing mix. For example, they might want the different ingredients of Perry Court Farms, or the different cooking techniques of Burts. This suggests that crisp manufacturers will need to constantly innovate and adjust the features of their product mix and indeed product ranges. There is also an important role for market research in ensuring that crisp businesses are up to date with these changing preferences. This increase in market dynamism may lead to crisp manufacturers using more expensive materials or methods of production. For example, Perry Court using air dried approaches to their product demands large space and appropriate drying rooms for this to be possible, particularly if based in the UK and its unpredictable weather.

However, changing consumer preferences could simply mean changes in tastes for different flavours. Walker's use of limited edition flavours, such as those associated with the football world cup can be seen as relatively low cost ways of adapting to consumer tastes. The move towards healthier crisps is one area of growth, but this might be more to do with finding alternatives to competing with market leader Walker's directly. The traditional crisps market is still growing at 29% in the 2008-2012 period, so this suggests that there may be scope for increased sales without necessarily accommodating these changing tastes.

**Examiner's comment**

This is a strong response which is supported throughout by relevant and effective use of the business context. The assessment is balanced, wide-ranging and well-contextualised. The student has demonstrated an awareness of competing arguments ("*However, changing consumer preferences could simply mean changes in tastes for different flavours*") and has provided a supported judgement: "*The traditional crisps market is still growing at 29% in the 2008-2012 period, so this suggests that there may be scope for increased sales without necessarily accommodating these changing tastes.*"

This response therefore gained Level 4 and 8 marks.

To improve the response further, the student could have included a supported judgement that relates directly back to the question.

Students who complete the pre-released research task will be able to supplement answers with extra and relevant evidence based on wider reading and research. This is not a requirement within the mark scheme but this response demonstrates how students can use the research to ensure a well contextualised and evidenced response.



### Question 1c

**Assess the likely impact on premium crisp manufacturers, such as Kettle, of having a small market share. (12)**

#### **Response 1**

Kettle has a market share of 6.6% of the UK crisp market. This is small compared to Walkers at 45.6% and means that Kettle owns a smaller number of customers.

This is going to provide a huge disadvantage for Kettle. If they have 39% less customers than Walkers, they are going to have 39% less sales and 39% less profits which means that they will have less to spend on expansion into new markets. If they have less money to expand, they are also less likely to gain economies of scale from things such as bulk buying of potatoes. This will raise their total costs and mean that their costs have to be higher than Walkers.

A small market share can be an advantage to Kettle though because they will have to spend less on advertising and marketing to keep hold of existing customers. It is probably the case that the customers who already buy Kettle products are fans of the product quality and flavours and therefore are not as concerned about special offers and other methods of promotion Kettle might use.

A small market share is not good for a business such as Kettle as it means less customers, less sales and less profits. If the small market share in the UK stays the case for a long time, it could mean that Kettle look to expand into foreign markets so that they can gain a bigger market share there. This might allow them to buy in bulk and gain economies of scale, which will mean they can enter the new market as a price leader and attract customers on the basis of low costs.

#### **Examiner's comment**

There are some inaccuracies and assertions in this response, such as *"If they have 39% less customers than Walkers, they are going to have 39% less sales and 39% less profits which means that they will have less to spend on expansion into new markets"*. However, the response is applied to the business context and there is some analysis. The student attempts balance by considering advantages and disadvantages but the response isn't balanced overall. The student has done just enough to reach Level 3.

This response therefore gained Level 3 and 5 marks.

**Response 2**

Kettle has a market share of 6.6% of the UK crisp market, which although small, is still the third largest in the UK market. The market is dominated by Walkers who own a wide range of brands that cater for the more 'traditional crisp' market. Their dominance of the mass market makes it difficult for competitors to enter the market and compete with such a dominant business due to the customer loyalty and economies of scale they will enjoy. However, crisp businesses such as Kettle tend to sell different products that are aimed at more niche customers. Features of their products include: larger packets, a wider range of flavours and more 'luxury' features to the product and the way it is cooked. This market is, by definition smaller, so is one explanation for the smaller market share overall. This might not have a major impact negatively because, as with most niche products, although the sales volume is smaller on these products, the profit margin per sale is likely to be higher. A smaller market share also gives a business like Kettle the opportunity to innovate with new flavours and cooking techniques - they have fewer customers who are loyal to certain features that these changes could discourage and upset. Linked to this is likely to be more responsiveness to the changing needs of customers - smaller market shares require smaller organisations and therefore they are less likely to suffer from diseconomies of scale. Most of Kettle's production is co-ordinated from one factory in Norwich - this makes communication much easier and reduces the chances of problems caused by misinformation across a range of outlets as Walkers could experience.

However, the other side to this is that Kettle are less likely to enjoy the economies of large scale production that a business with Walker's market share will enjoy. This will reduce the unit cost of producing each bag of crisps and lead to lower costs overall, thus allowing either higher profits per bag or the chance to reduce prices. This means that a business such as Kettle is unlikely to be able to compete directly on price and Walker's long-term position of market leader is more secure. Even if Walkers did not choose to compete on price, the increased brand awareness resulting from such a high market share is likely to re-enforce their position as market leader.

The impact of a small market share on a business such as Kettle is difficult to judge as they have only ever operated in that situation. Their business is based on selling to a smaller, up-market customer and therefore they could argue that the effect of a small market share is limited. However, it does seem that the dominance of Walkers prevents any ambition that Kettle may have for moving more mass market in the crisp industry if there markets become saturated. The reduced revenue from a small market share is sure to reduce their expansion options were they to remain focused on the UK market.

**Examiner's comment**

This is an excellent response which fully meets the Level 4 descriptors. The assessment is wide-ranging and well-contextualised, and the response shows an awareness of competing arguments leading to a supported judgement.

This response therefore gained Level 4 and the full 12 marks.

### Question 1d

**Using the data from the tables in Extract D, evaluate the likely impact of economic growth on UK-based crisp manufacturers. (20)**

#### **Response 1**

Extract D shows that India and China are growing very quickly, while the UK is not. This means that UK-based crisp manufacturers should be looking to expand into these markets.

GDP growth means that consumers in that country are getting richer. For example India's GDP has grown more than 6% every year from 2009 and its GDP per head has nearly doubled. China has done even better, with GDP growing over 7% each year and GDP per capita nearly doubling too. In contrast the UK's GDP has shrunk and its GDP per capita has hardly grown at all in the same time span. China and India are growing at different speeds, but we know these are two very important emerging markets and therefore they must provide a good opportunity for crisp manufactures in the UK.

This means that the UK market has become a lot less attractive as people can no longer to afford to buy crisps in such large quantities. Compare than to China in particular where increased economic growth will mean that Chinese customers will want to buy UK-made crisps as these will be seen as 'Western luxury products' and therefore attractive to purchase.

It is clear from the figures for India and China that GDP change and GDP per capita will continue to grow in the future - after all they have in the past, so UK firms should be prioritising these markets for overseas expansion before other businesses see the same opportunity. Crisps are a relatively cheap product, so it should be relatively straightforward to attract India and Chinese customers to purchase these UK-made products. It could be that the 'British' aspect of the products is used as a USP for the crisps so that customers are attracted to them and perhaps convinced to pay a higher price as a result.

There is a risk involved in this plan in that Chinese and Indian customers may not like UK made crisps. However, with some market research, flavours can be adapted to local tastes and this is likely to mean that Chinese and Indian customers will still buy the products.

Overall these GDP figures show two emerging markets that provide a good opportunity for UK-based crisp manufacturers. The UK is clearly suffering economically, so it is best for businesses such as Kettle and Burts to look elsewhere for future profits because rising GDP is one of the most important indicators of living standards and therefore the likelihood of buying crisps.

#### **Examiner's comment**

This response includes some references to the quantitative data but the interpretation is fairly simplistic. The student has relied on reading the information from the table and has not completed calculations or shown how they have used the data to support their judgements. The rest of the response is balanced but lacks analysis.

This response therefore gained Level 2 and 8 marks.

When quantitative skills are assessed within extended answer questions, students must demonstrate these skills to access Levels 3 and 4 of the mark scheme. When students are prompted to "use the data" they must do so to access the higher levels.

**Response 2**

Extract D shows Percentage growth in GDP and GDP per capita for three countries: China, India, and the UK. This economic information provides two indicators of the potential sales for crisp manufacturers as GDP growth is one measure of the size of an economy and so its buying power, with GDP per head showing one measure of living standards for individuals within an economy.

For UK based crisp businesses, an assessment of the UK market is a good place to start. Although the market is growing the slowest out of the three (0.1% in 2012 and GDP still not back to 2009 levels), the GDP per capita is easily the biggest - it is over 6 times greater than 2nd placed China. This suggests that consumers in the UK will have more disposable incomes for products such as crisps which, particularly for smaller producers such as Kettle and Burts are more of a luxury product. Although the UK market is dominated by Walkers in terms of market share, the relative wealth of the market as indicated by these GDP figures suggests that there may be room for a range of crisp producers offering a range of products to all customers at once. As the UK market is 'mature' and used to a range of flavours, ingredients and styles, it could be that the figures re-enforce the attraction of the UK.

However, on both measures, China and India are growing quickly. China's GDP per head has risen by 62% and India's 31% between 2009 and 2012. These levels of growth, particularly in China suggest an opportunity for UK based crisp businesses to attempt to enter the market and gain a degree of 'first mover advantage' for their products and flavours. Consumers in China are likely to be less experienced with purchasing this type of product due to lower disposable incomes - this growth as outlined could provide a big opportunity for UK based businesses.

It must also be considered that these GDP figures are only two measures of an economy and they can only give general information about output overall. For example, there is no information for crisp businesses about the distribution of income within an economy. Although India's GDP per head was \$1 508 per head in 2012, this does not give information about the size of 'middle class/middle income' Indian consumers who are likely to be the main customers of businesses such as Kettle and Burts. There is also no indication of forecasts for future growth in GDP or GDP per head. The process of exporting crisps via retail networks in new markets, or indeed in case such as China arranging import licences takes time and it could be that the recent growth, though impressive by UK standards is not sustainable and therefore less likely to provide new markets.

There is also a whole unknown area of the tastes and preferences of the Indian and Chinese markets. Increased wealth does not automatically signal an interest in British-style crisps, so much more market research would need to be undertaken to judge the viability of expansion into these markets. It could be the case that Chinese and/or Indian crisp equivalents are already successful and the demand for British flavours is therefore less likely to be attractive.

Economic indicators such as those provided in Extract D provide an important starting point for businesses to make decisions. The dominance of Walkers in the UK market makes exporting abroad an attractive proposition for crisp businesses such as Kettle and Burts. However, these GDP figures are two rather crude measures of the financial opportunities offered by two countries. Much more investigation of the specific tastes of consumers in these countries is needed, along with more informative economic data such as average wages and the projected growth of these in the future. The impact of these economic figures in themselves is therefore likely to be small for UK crisp manufacturers, however they could alert decision-makers in the businesses to opportunities for further expansion abroad should they be in a position to exploit these.

**Examiner's comment**

In this response quantitative skills are demonstrated and the student has clearly completed their own calculations to interpret the data given and support the judgements they are making. Both quantitative and qualitative information has been used effectively throughout the response. Arguments are fully developed and well-contextualised, and the response finishes with an effective conclusion and recommendation (*"Much more investigation of the specific tastes of consumers in these countries is needed, along with more informative economic data such as average wages and the projected growth of these in the future."*)

This response therefore gained Level 4 and the full 20 marks.

## Section B

### Question 2a

Assess two possible disadvantages to Burts of selling its crisps in overseas markets. (8)

#### Response 1

IN MARKETS SUCH AS THE USA CONSUMERS MAY HAVE DIFFERENT TASTES. AS A RESULT US CONSUMERS MAY NOT LIKE BURTS SALT AND VINEGAR AND PREFER ESTABLISHED BRANDS SUCH AS LAYS STEAKHOUSE BEEF. THIS MEANS BURTS WILL STRUGGLE TO BUILD MARKET SHARE RESULTING IN LOW PROFITS FROM THE NEW MARKET.

A SECOND DISADVANTAGE IS THAT BURTS DO NOT HAVE AN ESTABLISHED DISTRIBUTION NETWORK IN COUNTRIES SUCH AS GERMANY. THEREFORE EVEN IF BURTS PRODUCE A PRODUCT THAT GERMAN CONSUMERS LIKE, GERMAN RETAILERS WOULD NOT STOCK IT DUE TO ESTABLISHED CONTRACTS WITH COMPANIES LIKE PEPSICO WHO OWN THE DORITOS BRAND. THEREFORE ~~THE~~ BURTS WILL STRUGGLE TO OVERCOME THIS SIGNIFICANT BARRI~~R~~ TO ENTRY.

AS A RESULT BURTS WILL FIND IT HARD TO SELL CRISPS OVERSEAS.

#### Examiner's comment

This response shows accurate knowledge and understanding and is applied accurately to the business and its context. There are chains of reasoning but these are incomplete.

This response therefore gained Level 2 and 5 marks.

## Response 2

Burts is a successful UK crisp business, with a reputation for high quality products. If Burts were to sell overseas it is likely to face two main problems: the fact that overseas markets may have different tastes to the UK, and the transportation costs involved in selling abroad.

The UK is quite a mature crisp market and my research showed that a wide range of flavours are enjoyed by consumers: from traditional salt and vinegar or cheese and onion, to more adventurous sweet Chilli, or sour cream and chives. It is uncertain if the overseas markets that Burts expand into will have similar tastes and it may be expensive for Burts to undertake the market research needed to establish these tastes. If overseas customers have very different tastes, then the required adaption of flavours for overseas markets may be too expensive for Burts. However, the fact that they already operate in 44 other countries suggests that their market research has been accurate in the past.

The issue of transportation costs depends on the proximity of the overseas markets that they are considering exporting too. If it is somewhere like France or Belgium, then these costs will not be much higher than transporting from their base in Devon to Scotland or Northern England. However, if they are exporting to China or India because of their rapid economic development, these costs may become prohibitive. Crisps are relatively perishable products, so there could be an issue with quality (which Burts built their brand around) is damaged if the transportation is not managed properly. However, their track record of innovation in the Netherlands crisp market suggests that overseas expansion could be successful, particularly if Burts were to focus on the European Union in the first instance, instead of immediately looking to markets such as India or China.

### Examiner's comment

This response references the student's own research and this has been used to provide context and to support the points made (*"The UK is quite a mature crisp market and my research showed that a wide range of flavours are enjoyed by consumers..."*). Although the student is not awarded marks directly for referencing their research this has ensured their response is supported throughout by relevant and effective use of the business context.

The response is balanced, with the student successfully assessing **two** disadvantages.

This response also demonstrates how students can make supported judgements in an 8-mark assess question without writing a separate conclusion. Here, the judgements focus on each point; for example, *"However, the fact that they already operate in 44 other countries suggests that their market research has been accurate in the past"* and *"However, their track record of innovation in the Netherlands crisp market suggests that overseas expansion could be successful, particularly if Burts were to focus on the European Union in the first instance, instead of immediately looking to markets such as India or China."*

This response therefore gained Level 3 and the full 8 marks.

**Question 2b**

**Assess why Burts did not use loan capital to fund its £2.1m factory expansion. (10)**

**Response 1**

Loan capital means borrowing from a bank and paying it back in small instalments over a number of years. If Burts had used loan capital for their £2.1m expansion, they would have been required to pay interest on this which would have added to the costs that the business faces. It might have been better if Burts had used share capital as they are a limited company and this option is available to them with their shareholders. As the £2.1m was used to buy new machinery using a loan might mean that the loan ended up being paid back after the machine was out of date.

Also if they had borrowed the £2.1m in loans capital this would have increased the total borrowings that Burts already has which are already £2 205 824, and already at a high level. The interest on this may be high and therefore an expensive cost for the business, which would have to be paid for on a regular basis.

**Examiner's comment**

There are no designated quantitative skills marks for this question but this response makes some use of the quantitative data in the extract to support the points made. There is some application and analysis but no balance and the student has done just enough to reach Level 3.

This response therefore gained Level 3 and 5 marks.



## Response 2

Loan capital is money borrowed from a financial institution such as a bank. In general terms, the problem with loan capital is that interest is attached to this and therefore there are added costs to using this source of finance. It is unclear if Burts would be able to secure a loan of £2.1m as this is relatively large compared to the turnover of the business (approximately £14.5m in 2013). Banks are likely to see this amount as either too risky to lend at all, or attach a higher rate of interest due to the increased risk. Added to this is the fact that Burts already has a gearing ratio of 45.2% before the loan - an additional liability of £2.1m would put the business in the 'highly geared' category, meaning that they are more vulnerable to interest rate rises in the future and also the interest payment obligations could have serious implications for Burts cash flow. This is because interest payments are a monthly outflow and would reduce Burts ability to pay other liabilities such as staff wages.

There are much better alternatives for a business such as Burts to finance a factory expansion. As a Private Limited Company they may be able to raise finance through additional share issues - as a Private company shareholders might agree to give up dividend payments in the short-term in order for the expansion to be a success. There is also the benefit that this finance would not require interest payments.

If external finance did have to be used, it might be that a mortgage could be negotiated with a bank. The factory expansion itself could be security on the loan, which should mean that banks offer lower rates of interest than a straight bank loan, because they have the collateral of premises to lend against.

### Examiner's comment

This is a strong response. The student has demonstrated accurate and thorough knowledge and understanding, supported throughout by the relevant use of context. There are coherent and logical chains of reasoning supported by quantitative and qualitative information; for example, "*It is unclear if Burts would be able to secure a loan of £2.1m as this is relatively large compared to the turnover of the business (approximately £14.5m in 2013)*" and "*Added to this is the fact that Burts already has a gearing ratio of 45.2% before the loan - an additional liability of £2.1m would put the business in the 'highly geared' category, meaning that they are more vulnerable to interest rate rises in the future and also the interest payment obligations could have serious implications for Burts cash flow. This is because interest payments are a monthly outflow and would reduce Burts ability to pay other liabilities such as staff wages*". The response is balanced and the student shows awareness of competing arguments, and the response ends with a supported judgement.

This response therefore gained Level 4 and the full 10 marks.

**Question 2c**

**Assess the likely impact on Burts of its decision to grow the business organically. (12)**

**Response 1**

Burts could grow organically by selling more of the products that they already sell, or expand into new markets. This is good because it means the business has control of the growth and do not need to involve other businesses. As it is based in Devon it might be that they couldn't find another business to work with due to the travelling involved. Growing organically also means that it is less risky than merging with another business or taking another one as you know what is involved and do not have to mix with other businesses. It also avoids diseconomies of scale as the business grows.

However, growing organically means that the business might not gain from economies of scale that other businesses like Walkers achieve. This might mean that they are unable to grow in overseas markets as well as they had hoped, because the business is limited to the capacity that it currently has.

For a business like Burts organic growth is the best way forward because in general the benefits are more important than the problems and the problems would mean the business moves away from what it currently does.

**Examiner's comment**

The chains of reasoning in this response are incomplete and there are general assertions such as "*As it is based in Devon it might be that they couldn't find another business to work with due to the travelling involved.*" There is some balance in the response but the analysis is not strong enough to reach Level 3.

This response therefore gained Level 2 and 4 marks.

## Response 2

Organic growth occurs when a business expands without the involvement in another business, such as through a merger or takeover. As a relatively small player in the UK crisp market Burts will not have the power to grow inorganically, without perhaps being taken over by one of the bigger businesses such as Kettle's.

As organic growth is controlled by the business, in this case Burts, the risk of the strategy is much lower. This is because growth comes from expansion of the product range or outlets, such as Burts doubling in capacity in 2014, is controlled by the owners and managers of Burts, rather than a third party. If growth were to occur inorganically there can be problems such as culture clashes, where the working patterns and relationships of one business are incompatible with those of the business they then work with. This was a feature of the takeover of Leicester-based Walkers crisps, by US Pepsico. Inorganic growth can also cause diseconomies of scale as communication within the business becomes much more inefficient due to the rapid increase in size - systems of management and communication do not adapt and errors become more common. With Burts organic growth, this is much less likely as all decisions will be made by the board and managers as has always been the case.

However, organic growth will have provided Burts with limitations. As a small player in the crisp market, it will have found it more difficult to achieve economies of scale, compared to a business such as Walkers. For example, businesses that grow rapidly via inorganic growth are more likely to enjoy purchasing economies of potatoes from farmers who are willing to offer discounts on bulk orders. Also, in a competitive market such as crisps, promotional economies of scale could make a big difference to Burts chances of successful growth, particularly in new markets overseas. If you add to this the expertise that other crisp manufacturers have of overseas markets, it is possible to see how Burts may have benefitted from merging or taking over a foreign crisp business in order to take advantage of their local knowledge of consumers' tastes and methods of distribution in their particular market.

### Examiner's comment

This response has balanced assessment which is wide ranging and well-contextualised; for example, "*As a relatively small player in the UK crisp market Burts will not have the power to grow inorganically, without perhaps being taken over by one of the bigger businesses such as Kettle's*". The student considers the strengths and limitations of organic growth to show an awareness of competing arguments but doesn't quite go far enough at the end to include a supported judgement.

This response therefore gained Level 4 and 10 marks.

**Question 2d**

Using the data in Extracts G and H and ratio analysis, evaluate whether Burts should continue to expand. (20)

**Response 1**

BURTS SHOULD EXPAND BECAUSE THEY ARE MAKING A LARGE PROFIT OF £698,026 IN 2013, COMPARED TO A LOSS IN 2012. THIS MEANS THAT IF THEY GET BIGGER THE PROFIT WILL CONTINUE TO GO UP. THIS HAPPENS BECAUSE THEY WILL BE ABLE TO BUY POTATOES FROM FARMGAS FOR EVEN LESS MONEY SAVING COSTS. FARMERS WILL DO THIS BECAUSE THEY OFFER BURTS BULK BUYING DISCOUNTS. BURTS SHOULD ALSO CONTINUE TO EXPAND BECAUSE THEY HAVE A STRONG BRAND AND PEOPLE CLEARLY LIKE THEIR CRISPS. BY EXPANDING, MORE CONSUMERS WILL BUY THEM MAKING THE PROFIT RATIOS INCREASE EVEN MORE.

HOWEVER, BURTS NEED TO BE CAREFUL SINCE THEY COULD EXPAND TOO QUICKLY. THERE IS A LOT OF COMPETITION IN CRISPS FROM WALKERS WHO DOMINATE AND THEY ARE A SMALL COMPANY. THEREFORE BURTS COULD EXPAND IN A WAY THAT PUTS TOO MUCH PRESSURE ON THE FINANCES OF THE COMPANY. BURTS ALREADY HAS LARGE LIABILITIES AND HAS NEGATIVE RETAINED PROFIT. THEREFORE THIS EXPANSION COULD OVERSTRETCH THE COMPANY, ESPECIALLY IF A BIG CUSTOMER LIKE ASDA MOVES TO A RIVAL CRISP MANUFACTURE.

IN MY OPINION BURTS SHOULD EXPAND, BUT THEY NEED TO BE CAREFUL AND NOT STRETCH CASHFLOW. EXPANSION SHOULD LEAD TO INCREASED PROFITS ASSUMING DEMAND FOR ITS CRISPS DOES NOT FALL.

**Examiner's comment**

This question asks students to **use the data** in Extracts G and H **and ratio analysis**. This means that the question has marks for quantitative skills. To access Levels 3 and 4, students will need to demonstrate quantitative skills to support their judgements.

This response does not include calculations or interpretation of the ratios. The reference to "*a large profit of £698,026 in 2013*" is not sufficient. This means the response can access only Levels 1 and 2 of the mark scheme.

There are elements of knowledge and understanding with an attempt to discuss economies of scale in the first paragraph. The response is also in context. The student attempts to build an argument, references the problems with expanding too quickly and the response finishes with a conclusion.

This response therefore gained Level 2 and 8 marks.

## Response 2

BURTS SHOULD CONTINUE TO EXPAND SINCE THE RATE OF RETURN ON CAPITAL EMPLOYED IS CURRENTLY 10.9%  $(530692/4879138) \times 100$ . THIS IS A STRONG PERFORMANCE CONSIDERING THE COMPETITIVENESS OF THE CRISP MARKET, ALTHOUGH IT WOULD HAVE BEEN USEFUL TO MEASURE COMPARABLE PERFORMANCE BY CALCULATING RATIOS FOR RIVAL FIRMS. THE POTENTIAL TO SIGNIFICANTLY GROW ROCE CAN BE SEEN BY EXAMINING THE OPERATING PROFIT MARGIN WHICH WAS 0.48% IN 2012  $(61910/12867522) \times 100$  BUT POST EXPANSION INCREASED TO 3.61%  $(630692/14667947) \times 100$ . THIS DEMONSTRATES THAT BURTS WERE ABLE TO IMPROVE THEIR CAPACITY UTILISATION WHICH HAD THE IMPACT OF LOWERING UNIT FIXED COSTS (AFC). THIS IN CONJUNCTION WITH GREATER PURCHASING ECONOMIES OF SCALE WILL HAVE ALSO REDUCED UNIT VARIABLE COSTS (AVC) RESULTING IN BURTS FACING A LOWER UNIT COST (ATC) FOR EACH BAG OF CRISPS. THIS ALLOWED BURTS TO GROW ITS MARGINS DESPITE THE CONSTANT PROMOTIONAL ACTIVITY FROM RIVAL LIKE TYRELLS. CLEARLY IF BURTS EXPAND THE MARGIN WILL CONTINUE TO GROW WHICH SHOULD INCREASE ROCE.

HOWEVER EXPANSION CAN BE RISKY AND IT IS VERY EASY FOR BURTS TO OVEREXTEND ITS FINANCES. HOWEVER, GEARING HAS ACTUALLY FALLEN TO 45.2%  $(2205824/4879138) \times 100$  SUGGESTING THAT BURTS RISK PROFILE HAS ACTUALLY DECREASED

THIS ALSO RE-INFORCED BY THE CURRENT RATIO WHICH HAS IMPROVED MARKEDLY TO 100:4  $\frac{3572,000}{35547}$ . THIS SUGGESTS THE BURTS HAVE FAR TOO MANY CURRENT ASSETS. POTENTIALLY THIS COULD RESULT IN VERY ROBUST CASH WHICH WILL LIMIT ANY LIQUIDITY PROBLEMS ASSOCIATED WITH EXPANDING.

TO CONCLUDE BURTS ARE IN A STRONG FINANCIAL POSITION GOING FORWARD. ALL THE MAIN ACCOUNTANCY RATIOS HAVE IMPROVED AND LIMITED DOWNSIDE RISK APPEARS TO BE ATTACHED TO EXPANSION. HOWEVER EXPANSION SHOULD ONLY BE CONTEMPLATED IF THE DEMAND FOR CRISPS CONTINUES TO GROW. IF HEALTH WORRIES CONTINUE TO RISE, DEMAND FOR CRISPS COULD FALL LEAVING BURTS EXPANDED FACTORY WITH LOW CAPACITY UTILISATION. IF THIS WERE TO OCCUR THIS COULD EASILY DAMAGE BURTS IMPROVING RATIOS. THEREFORE EXPANSION SHOULD ONLY BE CONSIDERED ON THE BACKDROP OF INCREASED DEMAND AND LIMITED COMPETITION

(Total for Question 2 = 50 marks)

**Examiner's comment**

This response makes good use of the data and the student has included calculations and interpreted the results. The quantitative and qualitative information is used well to support judgements. The student shows awareness of competing arguments and finishes with an effective conclusion that makes a recommendation: *"Therefore expansion should only be considered on the backdrop of increased demand and limited competition."*

This response therefore gained Level 4 and 18 marks.

To improve the response further the student could have focused more on the context of Burts in relation to competitors in the conclusion. For example, by adding: *"Health worries could damage profitability ratios by reducing revenue, or increasing costs because of changes to the manufacturing or labelling of crisps. Limited competition might come about from either the failure of a competitor, such as Kettle, or the inability of competitors to compete with Burts' brand image or product."*